

---

**Operational Audit of the Town of Lake Park, Florida**  
For the Period October 1, 2000, Through January 31, 2002,  
And Selected Actions Taken Prior and Subsequent Thereto

---

**OPERATIONAL AUDIT REPORT**  
Issued October 28, 2002



WILLIAM O. MONROE, CPA

**STATE OF FLORIDA  
AUDITOR GENERAL**

*TOWN OF LAKE PARK, FLORIDA*

**OPERATIONAL AUDIT**

*For the Period October 1, 2000, Through January 31, 2002,  
and Selected Actions Taken Prior and Subsequent Thereto*

# OPERATIONAL AUDIT

TOWN OF LAKE PARK, FLORIDA

FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,

AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

## Table of Contents

LETTER OF TRANSMITTAL

ABSTRACT

SCOPE, OBJECTIVES, AND METHODOLOGY

SUMMARY OF FINDINGS

FINDINGS AND RECOMMENDATIONS

GENERAL MANAGEMENT CONTROLS

Prior Audit Findings

Written Policies and Procedures

Separation of Duties

Audit Report

Financial Condition

BUDGETARY CONTROLS

Budget Preparation

Budget Adoption

Budget Overexpenditures

CASH IN BANK

Bank Reconciliations

Stale-Dated Checks

Check Signing

Electronic Transfer of Funds

Investment Earnings

FIXED ASSETS

Tangible Personal Property Records

Tangible Personal Property Inventory

LONG-TERM DEBT

1997 and 1998 Bond Issues

Property Renovation Loan

RESTRICTED RESOURCES

Accountability for Restricted Revenues

Local Option Fuel Tax

Grant Reimbursements

CASH CONTROLS AND ADMINISTRATION

Responsibility for Collections

Sanitation Fee Collections

PERSONNEL AND PAYROLL ADMINISTRATION

Hiring Practices

Compensatory Leave

Insurance Overpayments

**PROCUREMENT OF GOODS AND SERVICES**

**Credit Cards**

**Disbursement Processing**

**Inadequately Documented/Unauthorized Expenditures**

**CONTRACTUAL SERVICES**

**Written Agreements**

**Competitive Selection Process**

**Inadequate Support for Contractual Expenditures**

**Contract for Police Services**

**Contract for Fire and Emergency Services**

**Contract for Construction Services**

**Investment Advisory Services**

**TRAVEL EXPENSES**

**Travel Policies**

**Travel Allowance**

**Travel Reimbursements**

**Taxable Meal Allowance**

**COMMUNICATIONS EXPENSES**

**Telecommunication Taxes**

**Telecommunication Charges**

**VEHICLE USAGE**

**Vehicle Utilization Records**

**OTHER MATTERS**

**Conflict of Interest**

**Sunshine Law**

**APPENDICES**

**BACKGROUND**

**UNFAVORABLY RATED FINANCIAL INDICATORS**



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450



850/488-5534/SC 278-5534  
Fax: 488-6975/SC 278-6975

October 28, 2002

The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

Pursuant to the provisions of Section 11.45, Florida Statutes, and as part of the Legislature's oversight responsibility for operations of local governmental entities, I have directed that an operational audit be made of the

*TOWN OF LAKE PARK, FLORIDA*

*FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,  
AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO*

The results of the operational audit of the Town of Lake Park, Florida, are presented herewith.

Respectfully submitted,

*William O. Monroe*  
William O. Monroe

Audit supervised by:  
Ted J. Sauerbeck

Audit made by:  
Derek H. Noonan

## *ABSTRACT*

*OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA  
FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,  
AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO*

This abstract highlights the findings of audit report No. 03-041. The entire audit report should be read for a comprehensive understanding of our audit findings and recommendations.

## *SCOPE, OBJECTIVES, AND METHODOLOGY*

### *SCOPE*

The Auditor General is authorized by State law to perform independent financial and operational audits of governmental entities in Florida. In a letter dated September 7, 2001, Senator Ken Pruitt requested that the Auditor General conduct an audit of the Town. Specific allegations that prompted the request relate generally to accounting records, financial condition, timely completion of financial audits, bonded debt usage, grant administration, budgets, cash disbursements, and purchasing procedures. Pursuant to Section 11.45(3)(a), Florida Statutes, the Legislative Auditing Committee, at its December 4, 2001, meeting, directed the Auditor General to conduct the audit.

The scope of this audit included transactions during the period October 1, 2000, through January 31, 2002, and selected transactions taken prior and subsequent thereto to determine whether such transactions were executed, both in manner and substance, in accordance with governing provisions of laws, ordinances, and other guidelines. In some instances, certain allegations required us to examine transactions related to certain specified Town officials, employees, or contractors that were the subject of the allegations.

## *OBJECTIVES*

Our audit objectives for the scope of this audit were to:

- Document our understanding of the Town's management controls relevant to the areas identified by specific allegations. Our purpose in obtaining an understanding of management controls and making judgments with regard thereto was to determine the nature, timing, and extent of substantive audit tests and procedures to be performed.
- Evaluate management's performance in administering its assigned responsibilities in accordance with applicable laws, ordinances, and other guidelines.
- Determine the extent to which the Town's management controls promoted and encouraged the achievement of management's objectives in the categories of compliance with applicable laws, ordinances, and other guidelines; the economic and efficient operation of the Town; the reliability of financial records and reports; and the safeguarding of assets.
- Determine the extent to which the Town has corrected, or is in the process of correcting, deficiencies disclosed in the Town's most recent audit reports.

## *METHODOLOGY*

The methodology used to develop the findings in this report included the examination of pertinent records of the Town in connection with the application of procedures required by generally accepted auditing standards and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

## SUMMARY OF FINDINGS

This section of our report summarizes the results of our operational audit of the Town of Lake Park, Florida, for the period October 1, 2000, through January 31, 2002, and selected actions taken prior and subsequent thereto.

### GENERAL MANAGEMENT CONTROLS

*Finding No. 1: Several findings included in the Town's 1999-2000 fiscal year annual financial audit report had been reported for many years without correction.*

*Finding No. 2: The Town had not established written policies and procedures necessary to assure the efficient and consistent conduct of accounting and other business-related functions and the proper safeguarding of assets.*

*Finding No. 3: The Town had not provided for an adequate separation of duties, or established adequate compensating controls, in certain areas of its business operations.*

*Finding No. 4: Contrary to law, the Town's 1999-2000 fiscal year audit was not completed, and a copy of the audit report filed with the Auditor General, until August 12, 2002, after the September 30, 2001, deadline.*

*Finding No. 5: The Town's overall financial condition is showing signs of deterioration which, if not corrected, could result in a future financial emergency. In addition to the effects of control deficiencies, as discussed throughout this report, factors that have contributed to this condition include a lack of targeted fund equity levels, periodic cash analysis and forecast, and financial plans.*

### BUDGETARY CONTROLS

*Finding No. 6: Contrary to Section 166.241(3), Florida Statutes, the Town's 2000-2001 and 2001-2002 fiscal year budgets did not include appropriations for some funds, and the 2001-2002 fiscal year budget did not include beginning fund equities available from the prior fiscal year.*

*Finding No. 7: Contrary to Section 166.241(3), Florida Statutes, the 2000-2001 and 2001-2002 fiscal year budgets and a budget amendment for the 2000-2001 fiscal year were not adopted by ordinance.*

*Finding No. 8: Contrary to Section 166.241(3), Florida Statutes, actual 1999-2000 fiscal year expenditures exceeded amounts budgeted for certain departmental expenditure categories in the General Fund by \$1,076,836, and expenditures in the Debt Service Fund exceeded budgeted amounts by \$38,107. For the 2000-2001 fiscal year, the Town's financial records disclosed budget overexpenditures totaling \$500,910 in various departments in the General Fund, and \$41,155 in three proprietary funds.*

**CASH AND INVESTMENTS**

*Finding No. 9: The Town's bank reconciliation procedures were not sufficient to ensure that bank accounts were adequately and promptly reconciled.*

*Finding No. 10: Contrary to Chapter 717, Florida Statutes, checks totaling \$7,764 that had been outstanding for over a year, thus constituting unclaimed property as contemplated by Chapter 717, Florida Statutes, had not been reported or remitted to the Florida Department of Banking and Finance.*

*Finding No. 11: The Town had not established adequate controls over signature stamps and it was not apparent why the Town required three signatures for all check disbursements.*

*Finding No. 12: The Town did not enter into written banking agreements regarding electronic transfers of funds. Such agreements should specify the location and accounts to which transfers can be made, amounts that can be transferred, and the employees authorized to make such transfers and make changes in locations where funds can be transferred.*

*Finding No. 13: The Town could have earned additional interest earnings of approximately \$25,000 had more surplus moneys been invested with the Florida State Board of Administration.*

**FIXED ASSETS**

*Finding No. 14: The Town's tangible personal property records did not provide adequate accountability over tangible personal property as they did not contain all necessary information and all property items. Further, some items could not be located or were not properly tagged.*

*Finding No. 15: The Town did not perform a complete inventory of tangible personal property during the 2000-2001 fiscal year. In addition, the Town did not perform a complete equipment inventory of its police department prior to outsourcing police services to the Palm Beach County Sheriff's Office (PBSO), although title to such property was transferred to the PBSO.*

**LONG-TERM DEBT**

*Finding No. 16: The Town had not established adequate controls over the administration of proceeds from its 1997 and 1998 bond issues totaling \$9,800,000.*

*Finding No. 17: The Town entered into a property renovation loan agreement with a term length contrary to that approved by the Town Commission. In addition, contrary to good business practice, the Town did not use a competitive selection process to obtain financing for the renovations.*

**RESTRICTED RESOURCES**

*Finding No. 18: Contrary to Section 218.33(2), Florida Statutes, the Town did not separately account for motor fuel tax revenues in the manner required by the Florida Department of Banking and Finance's Uniform Accounting System Manual.*

*Finding No. 19: The Town's comprehensive plan did not provide for the specific uses of the additional \$0.05 Local Option Fuel Tax. Further, the Town's use of these moneys included expenditures that did not appear to be consistent with the restrictions imposed by Section 336.025(1)(b)3., Florida Statutes.*

*Finding No. 20: The Town did not always timely request reimbursement for expenditures incurred under grant agreements.*

**CASH CONTROLS AND ADMINISTRATION**

*Finding No. 21: Collections received through the mail were not documented at the initial point of collection. In addition, collections were transferred between employees without the use of a transfer document.*

*Finding No. 22: The Town lacked adequate procedures to monitor and collect unpaid sanitation fees.*

PERSONNEL AND PAYROLL ADMINISTRATION

*Finding No. 23: The Town had not established adequate controls to ensure that only qualified applicants were hired. One employee was hired under a conditional employment arrangement although the Town lacked procedures for granting conditional employment and following up on conditional employment requirements.*

*Finding No. 24: The Town had not established adequate records of compensatory and executive leave earned, used, and available for employees.*

*Finding No. 25: The Town did not timely notify employee benefit providers of employee terminations, resulting in insurance overpayments of \$163,951 during the audit period, including \$40,694 that was unrecoverable.*

PROCUREMENT OF GOODS AND SERVICES

*Finding No. 26: The Town Commission had not adopted an ordinance or resolution, or otherwise provided guidance, as to the assignment and proper use of Town credit cards. Nor did the Town require users of the credit cards to sign written agreements specifying acceptable uses of credit cards.*

*Finding No. 27: Deficiencies in the Town's disbursement processing procedures included a lack of properly signed purchase requisitions or purchase orders and signatures indicating the receipt of goods or services.*

*Finding No. 28: Our audit disclosed expenditures totaling \$939 for which the Town's records did not clearly demonstrate that a public purpose was served.*

CONTRACTUAL SERVICES

*Finding No. 29: Contrary to good business practice, the Town did not maintain copies of written agreements for several contractors.*

*Finding No. 30: Contrary to good business practices or State law, the Town did not, of record, use a competitive selection process to find a replacement bank and to hire an architect in connection with Town Hall renovations.*

*Finding No. 31: Payments totaling \$83,077 for contractual services were not adequately supported by detailed invoices.*

*Finding No. 32: We noted several deficiencies regarding a contract between the Town and the Palm Beach County Sheriff's Office (PBSO) governing the transfer of law enforcement functions from the Town to the PBSO.*

*Finding No. 33: The Town's contract with Palm Beach County, whereby the County agreed to provide fire and emergency services to the Town's citizenry may be contrary to Article VIII, Section 4 of the State Constitution, which requires a voter referendum to transfer ultimate responsibility for such services to the County.*

*Finding No. 34: The retainage withholding percentage on a construction contract was reduced without written approval from Town personnel or the Town Commission. In addition, invoices supporting payments totaling \$16,076 to a contractor in connection with the Town Hall renovations were not, of record, subjected to architect approval or to retainage withholding.*

*Finding No. 35: The Town utilized an investment advisor for the Town's Police Officers' and Firefighters' Pension Plans. We were unable to determine how much was paid to the investment advisor during the audit period and, as such, whether fees were paid in accordance with the terms of the agreement.*

#### TRAVEL EXPENSES

*Finding No. 36: The Town Commission established an Employee Handbook that included allowances for subsistence expenses that differed from those provided for in Section 112.061(6)(b), Florida Statutes. However, because the Handbook was adopted by resolution rather than by ordinance or charter amendment, Town employees and officials traveling on official business were only entitled to the subsistence allowances prescribed in Section 112.061(6)(b), Florida Statutes. In addition, the Handbook was not specific regarding application of certain provisions relating to subsistence reimbursements.*

*Finding No. 37: Contrary to Section 112.061(7)(f), Florida Statutes, two Town employees were granted monthly travel allowances without signed statements showing places and distances for a typical month's travel. One of these employees was also assigned a Town vehicle on a full-time basis for no apparent reason.*

*Finding No. 38: The Town had not established adequate controls to ensure that travel expenditures are adequately supported and in accordance with Section 112.061, Florida Statutes.*

*Finding No. 39: Contrary to Federal regulations, payments for nondeductible travel expenditures (Class C meal allowances) were not subjected to withholding for payment of Federal income tax and other employment taxes.*

#### COMMUNICATIONS EXPENSES

*Finding No. 40: The Town paid \$6,243 in Federal, State, and local telecommunication taxes from which it is exempt.*

*Finding No. 41: Contrary to good business practice, the Town incurred \$1,706 of telecommunication charges that appeared to be avoidable, including late fees and associated interest, directory assistance calls, call-return fees, fees associated with making long distance calls without having a designated long distance carrier, and fees for calling "900" numbers.*

#### VEHICLE USAGE

*Finding No. 42: The Town assigned vehicles to employees on a 24-hour basis without demonstrating that the vehicles were used primarily for a public purpose and used only incidentally for the personal benefit of the employee assigned the vehicle. Vehicle usage logs were not maintained and the personal use of the vehicles was not included in the employees' gross compensation reported to the Internal Revenue Service.*

#### OTHER MATTERS

*Finding No. 43: Contrary to the Town's Code of Ordinances, the Town's senior engineer authorized payments to his wife as an independent contractor during the 1999-2000 and 2000-2001 fiscal years. In addition, during the 1997-1998 fiscal year, the Town purchased engineering services from a firm owned by the Town's senior engineer while he was a Town employee.*

*Finding No. 44: Four Commission members attended a reception, the purpose of which was to obtain information as to the qualifications of candidates for the Town Manager position. As such, the possibility existed that two or more Commissioners may have had discussions regarding this matter at the reception, which would appear to be a violation of the Sunshine Law (Section 286.011(1), Florida Statutes). In addition, several Commission meeting minutes were either not timely approved by the Commission or not approved at all of record.*

The Town's written responses to the audit findings and recommendations in audit report No. 03-041 are included under the applicable findings and recommendations. The [Town's response](#), in its entirety, may be viewed on the Auditor General's Web site.

**OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA**  
***For the Period October 1, 2000, Through January 31, 2002,***  
***And Selected Actions Taken Prior and Subsequent Thereto***

**FINDINGS AND RECOMMENDATIONS**

**General Management Controls**

***FINDING No. 1: Prior Audit Findings***

Pursuant to State law, the Town is audited annually by a certified public accounting firm. Findings included in the Town's 1999-2000 fiscal year annual financial audit report, that were also noted during our audit, are separately addressed in this report as appropriate.

Several findings included in the Town's 1999-2000 fiscal year annual financial audit report had been reported for many years without correction. Findings relating to the Town's lack of a written disaster recovery plan, and the Town's lack of a written agreement with its Police and Firefighter Pension Trust Funds broker regarding custodial responsibilities, have been reported in the Town's last seven audit reports. Six other findings related to possible under-insurance of the Police Pension Trust Fund, blanket purchase orders, cash register transactions, payroll deductions, and special assessment bonded debt have been reported in the Town's last three audit reports. Failure to take corrective actions in response to recommendations contained in audit reports increases the chances of errors or irregularities occurring without detection.

**Recommendation**

**The Town should ensure that audit findings are addressed in a timely manner.**

**Town Response**

*Management concurs with the findings and recommendation of the Auditor General. Every effort will be made to correct audit findings in a timely manner. The Town's staff has already corrected many prior year findings.*

*To date twelve of twenty-three audit findings listed in the Audit Management Letter for the year ended September 30, 2000 have been corrected including some of the most significant issues such as:*

- *Debt service fund deficit*
- *Fixed asset inventory*
- *Expenditures – over- budget*

- *Sanitation fund financial condition*

*Nine audit findings are currently being corrected and the remaining two findings are no longer applicable due to the dissolution of the Pension Trust Funds.*

## ***FINDING No. 2: Written Policies and Procedures***

Written policies and procedures, which clearly define responsibilities of employees, are essential to provide both management and employees with guidelines regarding the efficient and consistent conduct of Town business and the effective safeguarding of the Town's assets. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed in operation, provide management additional assurances that Town activities are conducted in accordance with applicable laws, ordinances, and other guidelines, and that Town financial records provide reliable information necessary for management oversight. Written policies and procedures also assist in the training of new employees.

Our review of Town operations disclosed that the Town did not have written policies and procedures for many of its accounting and other business-related functions. Written procedures were not available to document controls over budgets, revenues, petty cash, fixed assets, payroll processing, and cash disbursements. Instances of noncompliance or lack of adequate management controls, which may have resulted, at least in part, from a lack of written policies or procedures, are discussed in subsequent findings.

### **Recommendation**

**The Town Commission should adopt comprehensive written policies and procedures consistent with applicable laws, ordinances, and other guidelines. In doing so, the Town Commission should ensure that the written policies and procedures address the instances of noncompliance and management control deficiencies discussed in this report.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The development of policies and procedures is a very time consuming process. We recognize their importance but current priorities limit work in this area. All Departments will work on developing appropriate policies and procedures for future adoption by the Town Commission. In an effort to expedite this process staff will coordinate with other municipalities where feasible to adopt their policies as boiler plates to be customized to the Town's needs.*

### ***FINDING No. 3: Separation of Duties***

The Town, to the extent possible with existing personnel, should separate employee duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Failure to adequately separate duties increases the possibility that errors or irregularities could exist and not be promptly detected. Our review of the Town's controls related to the areas included within the scope of this audit disclosed inadequate separation of duties as follows:

- For all collection of moneys, one employee, the staff accountant, was given custody of collections, posted collections to the accounting records, prepared bank deposits, and reconciled collections of record to validated deposit slips. In addition, this employee also updated customers' accounts for sanitation payments received. In such a situation, it is possible for a loss of collections to occur without being timely detected.
- One employee entered all employee information, including pay rates, into the payroll accounting records, modified the information as necessary, processed the payroll, and distributed payroll checks. In such a situation, it is possible for unauthorized payroll transactions to occur without being timely detected.

We recognize that the Town has limited personnel available, making it difficult to adequately separate some functions; however, inadequate separations of duties due to lack of available personnel can be mitigated through the implementation of compensating controls. For example, a compensating control for collections could include the preparation and supervisory review of a list of collections received in the mail prior to delivering the collections to the staff accountant. For payroll processing, a compensating control could include having the Human Resources Director review payroll reports for any unauthorized changes prior to distribution of payroll checks. Our audit disclosed that the Town had not implemented such compensating controls.

#### **Recommendation**

**The Town should, to the extent practical, separate duties so that one employee does not have control of all aspects of a transaction (i.e., both recording responsibility and custody of assets). The Town should also ensure that adequate compensating controls are implemented to help mitigate circumstances in which adequate separation is not possible.**

#### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The Town has already implemented some separation of duties in the areas of cashiering*

*and payroll. The staff will continue to work on implementing separation of duties where practical.*

*The Finance Department has already implemented internal controls dealing with separation of duties in the areas of payroll, accounts payable and cashiering.*

*Cashiering procedures have been separated among three individuals in the Finance Department instead of the previous process that only involved one individual. Daily deposits are verified by a second person and the cash receipts edit is reviewed, corrected if necessary and posted to the General Ledger by the Finance Director.*

*The Payroll process has also been separated among three individuals in the Finance Department. Before the final paychecks are run, the Finance Director reviews the payroll edit report that shows all changes made to the payroll system since the last payroll run. Once this edit is approved, the final payroll is run and a third person (Assistant to the Finance Director) processes the payroll checks. The payroll checks and check register is then reviewed by the Finance Director before the payroll checks are released.*

*The Accounts Payable process has also been separated. The Accounts Payable clerk inputs invoices and generates an accounts payable edit report. The Finance Director reviews all data input and the edit report making corrections as needed. Once the review is completed the Finance Director releases the batches to post to the accounting system to be paid.*

*In the past, only one person handled each entire process. Now, the process is divided among individuals at steps in the process where the adequate separation can disclose possible errors or irregularities.*

#### **FINDING No. 4: Audit Report**

Pursuant to Section 11.45(3), Florida Statutes (2000), and Section 10.558(3), Rules of the Auditor General, the Town was required to provide for an audit for the 1999-2000 fiscal year and file a copy of the audit report with the Auditor General no later than twelve months after the end of the fiscal year (i.e., by September 30, 2001). Contrary to the law and rules, the Town's 1999-2000 fiscal year audit was not completed, and a copy of the audit report filed with the Auditor General, until August 12, 2002. Timely audits are necessary to ensure that management is promptly informed of operational deficiencies. In addition, we noted the Florida Department of State withheld funding of \$24,920 for a library construction grant pending receipt of the Town's 1999-2000 audit report. Inasmuch as some grantor agencies require audit reports to be submitted prior to releasing grant funds, the Town's ability to effectively manage cash flow through timely grant reimbursements is impaired when audit reports are not timely submitted.

## Recommendation

**The Town should ensure that annual audits are completed, and copies of audit reports filed with the Auditor General, within the statutorily mandated timeframe.**

### Town Response

*Management concurs with the findings and recommendation of the Auditor General. The Finance Department staff is aware of audit requirements and realizes the importance of timely audits. The lateness of the fiscal year 2000 audit will impact the 2001 audit that is currently taking place and should be completed by the end of October, 2002 with the published report available by late November or early December. We do not expect any delay in the completion of the fiscal year 2002 audit within the statutory timeframe.*

## **FINDING No. 5: Financial Condition**

A municipality's financial condition affects its ability to provide services, on a continuing basis, at the level and quality required for the health, safety, and welfare of its citizens. The Town's 1999-2000 audit report expressed concerns regarding the Town's ability to monitor its financial condition, and disclosed certain declining financial trends regarding the Sanitation Enterprise Fund. Similarly, our assessment of the Town's financial condition, based on certain financial indicator trends evaluated over a five-year period (fiscal years 1995-96 through 1999-2000), and financial indicator benchmark comparisons (comparing the Town to other municipalities with similar fund compositions and taxable property values) evaluated for the 1999-2000 fiscal year, disclosed deteriorating financial conditions. The financial condition assessment procedures consisted of evaluating 18 key financial indicators, of which 13 indicated an unfavorable rating. The following unfavorably rated financial indicators are discussed in [Appendix B](#) (including graphs depicting the Town's trends over the past five fiscal years):

Total unreserved fund balance and retained earnings adjusted for inflation ([Financial Indicator 1](#)).

Ratios of total cash and investments to total current liabilities and to total average monthly expenditures/expenses for governmental and proprietary funds ([Financial Indicators 2, 3, 4, and 5](#)).

Total current liabilities expressed as a percentage of total revenues for governmental and proprietary funds ([Financial Indicators 6 and 7](#)).

General long-term debt expressed on a per capita basis and adjusted for inflation ([Financial Indicator 8](#)).

Governmental funds debt service expenditures expressed as a percentage of total expenditures (**Financial Indicator 9**).

Revenues over (under) expenditures expressed as a percentage of total revenues (**Financial Indicator 10**).

Operating income expressed as a percentage of total operating revenues (**Financial Indicator 11**).

Total governmental funds expenditures expressed on a per capita basis and adjusted for inflation (**Financial Indicator 12**).

Millage rate (**Financial Indicator 13**).

While the Town is not currently in a state of financial emergency as defined by Section 218.503, Florida Statutes, and there were other financial indicators that did not have an unfavorable rating, we believe that the results for the indicators listed above indicate that the Town's overall financial condition is showing signs of deterioration which, if not corrected, could result in a future financial emergency. The trends and benchmarks discussed in Appendix B may indicate a declining ability to maintain a stable tax and revenue structure or an adequate level of services; a declining ability to raise the cash needed to meet ongoing fiscal obligations; impairments to liquidity; deficit spending; decreasing flexibility in allocating resources or responding to economic conditions; and a reduced ability to finance capital acquisitions without borrowing.

Factors that may have contributed to the deteriorating financial conditions include:

- A lack of targeted fund equity levels.
- A lack of periodic cash analysis and forecasts.
- A lack of financial plans, short-term (other than annual budgets) or long-term, to guide the financial activities of the Town in a manner that would assure financial stability.
- Various control deficiencies as discussed in this report, including, for example, those relating to budgets, cash, investments, long-term debt, sanitation fees, and expenditures as discussed in Findings Nos. 8, 9, 13, 16, 22, and 27.

### **Recommendation**

**The Town should take appropriate corrective actions as discussed in Findings Nos. 8, 9, 13, 16, 22, and 27, and develop short-term and long-term financial plans that include steps to strengthen the Town's financial condition. The financial plans should include: (1) a review of spending needs; (2) a system for**

**monitoring revenues and expenditures; (3) budget reserves to provide for future capital needs and unexpected costs; and (4) projected revenues sufficient to cover projected costs. Town management should analyze existing rate structures for proprietary operations to determine their sufficiency in covering expenses, and should explore all available options to increase its revenues or decrease expenditures. In addition, Town finance personnel should provide interim financial information to the Commission, including key summary financial information for monitoring the overall financial condition of the Town.**

### **Town Response**

*Management concurs with the findings and recommendations of the Auditor General. The current Town Management has taken many steps to “turn around” the declining financial trends. The Town Manager working with the Finance Director has implemented programs that will lead to a stable financial condition and eventually a more efficient and responsive government. Processes that have already been implemented include:*

- 1. Stop the use of fund balances to balance operating budgets.*
- 2. Sale of surplus property and equipment that the Town no longer has any use for in its operations. This will impact the budget through additional revenue from the sale of surplus property and will lower our annual insurance premiums. Further, properties sold in the Community Redevelopment Area (CRA) will bolster the tax increment fund (TIF).*
- 3. Annual review of fees and charges especially in the proprietary (enterprise) funds. This is evidenced by the increases in fees in the areas of sanitation and marina operations.*
- 4. Investigate the potential for outsourcing/privatization in all functional areas where effectiveness and efficiency may be improved.*

*Other processes that are being developed that will help bring financial stability to the Town include:*

- 1. The development of a needed investment policy.*
- 2. The establishment of fund balance reserve levels.*
- 3. The development and implementation of a 5 year capital improvement program.*
- 4. The establishment of a monthly review of operating budgets with each department and the Town Manager.*
- 5. The monthly report submitted by the finance department will be augmented with copies of the bank reconciliations.*
- 6. Management will recommend to the Town Commission that as part of the current annual auditing practice, that a requirement for an operational audit be implemented on a scheduled interval (e.g. every three years).*

Finally, the AG's report does not take into account several significant factors that will contribute positively to the Town of Lake Park's financial condition. Three of the most significant factors are:

1. The development of the Congress Avenue Corridor – This currently encompasses an approved Lowe's Home Improvement Center, conceptual consideration of over one million square feet of office/warehouse, and the current construction of the Westlake Apartment Complex. These projects will add approximately \$85M to the Town's tax roles, over a 25% increase, and will assist in achieving a more favorable financial position. These developments will also have additional positive impacts such as job creation and increased patronage for Lake Park businesses.
2. The Town Marina revitalization will add to the Town's revenue base.
3. The Town is currently investigating various levels of privatization/outsourcing as a means of conducting more efficient and effective operations.

### **Budgetary Controls**

Section 166.241(3), Florida Statutes, contains requirements for the adoption and implementation of budgets by municipalities. The Town Commission, by Resolutions 2000-44 and 2001-52, adopted budgets for the 2000-2001 and 2001-2002 fiscal years, respectively. Our review disclosed several deficiencies or noncompliance with applicable law in the preparation, adoption, and implementation of the budgets as discussed below.

#### ***FINDING No. 6: Budget Preparation***

Our review of the Town's procedures for preparing the annual budgets for the 2000-2001 and 2001-2002 fiscal years disclosed the following:

- Section 166.241(3), Florida Statutes, states that the amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. Contrary to this law, the Town, in preparing its 2001-2002 fiscal year budget, did not consider the effect of beginning fund equities available from prior fiscal years. Although the Town's general ledger for the 2000-2001 fiscal year showed a total ending fund equity of \$774,249 (excluding contributed capital) for all General Fund and proprietary fund types, the Town's 2001-2002 fiscal year budget did not show any beginning fund equities. Failure to consider beginning fund equities in the budget diminishes the Town's ability to determine appropriate increases/decreases in revenues or expenditures that may be needed for the fiscal year for which the budget is being adopted. If balances brought forward are significantly underestimated, the amount of taxes or other revenue sources contemplated in the proposed budgets may be increased beyond those amounts necessary to carry out planned expenditures or to establish reserves.

- Section 166.241(3), Florida Statutes, provides that the budget must regulate expenditures of the municipality, and it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. Accordingly, it is unlawful for the Town to expend moneys for purposes not contemplated by the budget. The Town received various Federal, State, and local grants, which were accounted for in the Town's Special Revenue Fund. Although the Town Commission approves grant agreements that are the basis for grant-related expenditures, the budgets adopted by the Town Commission for the Town's 2000-2001 and 2001-2002 fiscal years did not include appropriations for Federal, State, and local grants. The Town also accounts for capital projects revenues and expenditures in its Capital Projects Fund, and accounts for debt service payments for its 1997 and 1998 bond issues in its Debt Service Fund. The budgets adopted by the Town Commission for the Town's 2000-2001 and 2001-2002 fiscal years did not include appropriations for the Capital Projects Fund, and the budget adopted for the 2000-2001 fiscal year did not include appropriations for the Debt Service Fund. We are unaware of any exemption from the requirements of Section 166.241(3), Florida Statutes, for revenues and expenditures accounted for in special revenue, capital projects, and debt service funds.

### **Recommendation**

**The Town, pursuant to Section 166.241(3), Florida Statutes, should ensure that future annual budgets consider all beginning fund equities and include appropriations for all funds.**

### **Town Response**

*Management concurs with the findings and recommendations of the Auditor General. The Finance Department implemented the recommendations in the preparation of the annual budget for fiscal year 2003. All funds were budgeted and beginning fund equities were accounted for in the process.*

## **FINDING No. 7: Budget Adoption**

Section 166.241(3), Florida Statutes, requires that the governing body of each municipality adopt a budget each fiscal year by ordinance unless otherwise specified in the respective municipality's charter. As the Town's Municipal Code does not address the method of budget adoption and amendment for the Town, the Town Commission is required to adopt and amend the budget by ordinance.

Contrary to law, the Town adopted its original budgets for its 2000-2001 and 2001-2002 fiscal years, and a budget amendment for the 2000-2001 fiscal year, by resolution rather than by ordinance. The Town's procedures for adopting a budget did not conform to the ordinance requirements of Section 166.041, Florida

Statutes, which includes certain provisions not applicable to a resolution. The notice of proposed enactment of the ordinance published by the Town in the local newspaper did not conform with the requirements of Section 166.041(3)(a), Florida Statutes, which requires that the notice be made at least ten days prior to the adoption of the ordinance and state the title of the ordinance and the place where the ordinance may be inspected.

### **Recommendation**

**The Town Council should either adopt the budget and budget amendments by ordinance as required by Section 166.241(3), Florida Statutes, or amend the Town Charter to establish alternative procedures for the adoption of the budget and budget amendments.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The Town has initiated the use of an Ordinance for the adoption of the annual budget for fiscal year 2003 and will use an ordinance to amend the budget if necessary in the future. The Finance Director will be recommending a change to the Town's Charter to include a section for the adoption and amending of the budget.*

## **FINDING No. 8: Budget Overexpenditures**

Section 166.241(3), Florida Statutes, requires governing bodies of municipalities to adopt a budget each year and provides that the budget must regulate expenditures of the municipality. It is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations.

The Town's budgets established the legal level of budgetary control at the department level for the General Fund and at the fund level for the Debt Service Fund and proprietary funds. The Town's 1999-2000 annual financial audit report disclosed budget overexpenditures totaling \$1,076,836 in various departments in the General Fund, and \$38,107 in the Debt Service Fund. The Town's general ledger accounts for fiscal year 2000-2001 disclosed budget overexpenditures totaling \$500,910 in various departments in the General Fund, and totaling \$41,155 in three proprietary funds (Bus Fund, 900 Park Avenue Property Fund, and Park Avenue Properties Fund). We were advised that a report had been submitted to the Commission disclosing budget overexpenditures and the Commission was requested to approve a budget amendment to eliminate the overexpenditures. In response to our request for documentation supporting this assertion, we were provided with the Commission approved budget amendment Resolution No. 2001-61, which increased appropriations for fiscal year 2000-2001; however, the budget amendment attached to the Resolution re-allocated only \$28,000 of budgetary appropriations.

## Recommendation

Although the Town had available resources for the 1999-2000 and 2000-2001 fiscal years to offset the above-noted overexpenditures, the Town, in accordance with Section 166.241(3), Florida Statutes, should ensure that future expenditures do not exceed budgetary authority.

## Town Response

*Management concurs with the findings and recommendation of the Auditor General. The Town Manager's monthly departmental budget review should prevent the problem of over expenditures. This issue was addressed with the FY 02 budget by a budget amendment.*

## Cash in Bank

### **FINDING No. 9: Bank Reconciliations**

An essential element of control over assets entrusted to a governmental organization is the periodic comparison of such assets actually determined to be on hand with the recorded accountability for the assets. Because of the susceptibility of cash to loss, this is particularly important for cash on deposit with banking institutions. Accountability for such deposits is accomplished by the preparation of bank reconciliations as soon as possible after the receipt of monthly bank statements. In the event of a loss of cash, failure to reconcile bank accounts to the Town's accounting records could result in a failure to detect and recover the loss.

As of the time of our review in May 2002, the Town had not performed any bank reconciliations since January 2001. The Assistant Finance Director does maintain a spreadsheet that is used to compare receipts per the accounting records to receipts per the bank statements; however, the general ledger balance is not reconciled to the balance per the bank statement. Reconciliations performed prior to January 2001 were prepared from 64 to 162 days after month's end. In addition, our review of bank reconciliations for the months of October 2000 through January 2001 disclosed the following:

- Numerous checks had been outstanding for several years (see discussion in Finding No. 10).
- Unexplained and unsupported reconciling items ranged from \$760 to \$41,896.
- Bank statements did not reconcile with the Town's general ledger in amounts ranging from \$8,810 to \$34,418. In addition, the cash balance per the Town's accounting records listed on the face of the bank reconciliations differed from the amount reported on trial balances attached to the bank reconciliations by amounts ranging from \$348 to \$3,406,697.

Additionally, we noted two instances in which the check number shown in the accounting records did not match the check number shown on the cancelled check. Also, we noted that of 4 vendor check numbers not shown in the accounting records, 3 were for checks that were voided, and 1 was for a check that had been issued and cashed. In addition, 13 payroll check numbers not shown in the accounting records were for checks that were voided. Although Town officials were able to provide explanations for these instances, which reportedly were caused by checks being printed prior to the expenditures being posted to the accounting records, such instances make it difficult to prepare bank reconciliations.

Insofar as the Town has not prepared any bank reconciliations since January 2001, and given the errors and untimeliness associated with the bank reconciliations, there is an increased risk that errors or irregularities could occur without being promptly detected. Additionally, the Town's ability to manage cash flow is impaired.

### **Recommendation**

**The Town should ensure that proper bank reconciliations are performed timely. Additionally, reconciling items should be promptly resolved and prompt adjustments made to the accounting records to correct check information discrepancies such as those disclosed above. Further, the unexplained/unsupported reconciling items should be investigated by Town personnel.**

### **Town Response**

*Management concurs with the findings and recommendations of the Auditor General. Of the five bank accounts that were used from September 30, 2000 to present, the staff of the Finance Department has completed all bank reconciliations to date including the Wachovia Bank account. The use of this Wachovia Bank account was discontinued in May, 2002.*

*The current bank accounts in use since May, 2002 at Fidelity Federal (3 accounts) are all reconciled and up to date. As mentioned previously the Finance Department will be including copies of the bank reconciliations in future monthly reports to the Town Commission.*

## **FINDING No. 10: Stale-Dated Checks**

Sections 717.113 and 717.115, Florida Statutes, state that all intangible property and unpaid wages, including wages on unrepresented payroll checks, that have not been claimed by the owner for more than one year after becoming payable are presumed unclaimed. Further, Sections 717.117 and 717.119, Florida Statutes, require that any person holding unclaimed property shall report such property to the Florida Department of Banking and Finance (FDBF) by May 1 of each year

for the previous calendar year and simultaneously deliver such property to the FDBF.

Our review of the Town's accounting records disclosed that as of January 31, 2002, 33 payroll and other expenditure checks for the Town totaling \$11,503 had been outstanding in excess of six months. These included payroll and other expenditure checks for the Town totaling \$7,764 that had been outstanding in excess of one year as of December 31, 2000, and were required to be reported and remitted to the FDBF as of May 1, 2001. Contrary to the above-noted law, these unclaimed outstanding checks, which constitute unclaimed property as contemplated by Chapter 717, Florida Statutes, had not been reported or remitted to the FDBF as of the time of our review in May 2002. Pursuant to Section 717.117(3), Florida Statutes, the Town may be subject to as much as \$500 in penalties for failing to timely report unclaimed property to the FDBF.

### **Recommendation**

**The Town should take appropriate action to file the required report and deliver any unclaimed property to the FDBF.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The Town has already identified several individuals and has disbursed the monies due them, thus removing them from the Stale-Dated check list. We have also contacted the State of Florida to obtain the report that needs to be completed and filed. This report will be sent to the state on the next reporting date of April 30, 2003.*

### ***FINDING No. 11: Check Signing***

The Town requires the signatures of the Mayor, Vice-Mayor, and Finance Director on all checks and has a signature stamp for each required signature. The Finance Director retains his signature stamp in a locked desk drawer, and the signature stamps for the Mayor and Vice-Mayor are kept in a safe in the finance department. The Town's procedure is that an accounting clerk is to stamp checks using the Mayor and Vice-Mayor signature stamps, while the Finance Director separately stamps the checks using his signature stamp. However, we noted that frequently all signature stamps are given to one accounting clerk to sign checks, which circumvents the requirement for three separate signatures and increases the risk of unauthorized disbursements. Further, as indicated in the Town's 1999-2000 fiscal year audit report, it was not apparent why there was a need for three signatures, as opposed to two signatures, on all checks. Such a requirement could be administratively burdensome.

## Recommendation

The Town Commission should consider limiting the number of required signatures, perhaps requiring three signatures only for large or unusual disbursements. The Town should also ensure that at least one signature stamp is in the custody of, and utilized by, an employee outside of the finance department, and that no one employee is allowed access to all signature stamps.

## Town Response

*Management concurs with the findings and recommendation of the Auditor General. The Finance Director agrees that the number of required signatures should be limited. He recommends one signature (machine signed) for checks up to \$ 10,000 and one additional signature for checks over \$ 10,000 (manually signed). Signature stamps would be eliminated.*

*The reasons for this recommendation are as follows:*

- 1. The State of Florida Comptroller issues a machine signed check with one signature.*
- 2. Palm Beach County issues a machine signed check with two signatures.*
- 3. The use of machine signed checks and the elimination of signature stamps provides better protection because one cannot get a machine signed check without knowing how to run the accounting system.*
- 4. Since the accounting system uses blank paper stock there will not be blank checks to worry about. Our payroll checks currently use blank paper stock with machine signed checks. Internal controls are in place to prevent any unauthorized use.*
- 5. The requirement of the second signature manually signed would provide some safety with only minor inconveniences of tracking down a second signer.*

*This is a change that will be discussed with the Town Commission in the future.*

## **Finding No. 12: Electronic Transfer of Funds**

The Town did not enter into written banking agreements with two financial institutions from which it periodically made electronic fund transfers to the Internal Revenue Service and occasionally to the Florida State Board of Administration. Absent written banking agreements, there is no documentation specifying which Town officials or employees are authorized to electronically transfer funds and destination accounts are not specified for transfers out of the Town's two local banks. Good control over electronic funds transfers requires the use of written agreements with each financial institution that moneys are to be transferred to or from. Such agreements should specify the location and accounts to which transfers can be made, amounts that can be transferred, and the employees authorized to make such transfers and make changes in locations

where funds can be transferred. Although our audit did not disclose any transfers for unauthorized purposes, the above deficiencies, combined with the deficiencies noted regarding bank reconciliations (see Finding No. 9), limit management's assurance that electronic funds transfers were properly authorized, processed, and documented.

### **Recommendation**

**The Town should enter into written electronic funds transfer agreements with all financial institutions with which it does business. Such agreements should specify the responsibilities of the Town and the banks, the location and accounts where funds can be transferred, limits on amounts that can be transferred, and persons authorized to make transfers and to make changes in locations and accounts to which funds can be transferred.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The Finance Department is currently developing an RFP for banking services. When this is completed and a bank is chosen a written agreement detailing responsibilities of both parties will be signed. This agreement will cover bank transfers. Until the formal agreement is drafted, the only person authorized to transfer money out of the Fidelity Federal Bank account is the Finance Director, who is a signer on the account.*

### ***Finding No. 13: Investment Earnings***

Section 218.415, Florida Statutes, governs the investment of surplus funds by local governmental entities and authorizes various types of investments including the Local Government Surplus Funds Trust Fund administered by the Florida State Board of Administration (SBA), money market funds, interest-bearing time deposits, savings accounts, and direct obligations of the United States Treasury. We determined that the Town complied with Section 218.415, Florida Statutes, regarding authorized investments.

While the Town routinely invests surplus funds through the SBA, it also invests surplus funds in a money market savings account at a local bank. During the period October 1, 2000, through January 31, 2002, the Town held average monthly balances in its money market account ranging from \$147,911 to \$3,127,736, with interest rates ranging from .05 to 5.6 percent. The Town could have earned additional interest of approximately \$25,000 had it invested surplus moneys with the SBA, which offered interest rates ranging from 1.98 to 6.59 percent during the same time period, rather than investing the moneys in the money market account.

## Recommendation

To maximize interest earnings on surplus Town funds, the Town should, when appropriate, make investments through the SBA or in other authorized investments offering competitive returns consistent with safety and liquidity requirements.

## Town Response

*Management concurs with the findings and recommendation of the Auditor General. The Finance Department is currently developing an Investment Policy for adoption by the Town Commission. This policy will assist the Town in securing an increased rate of return on the investment of idle funds while complying with Section 218.415 of the Florida Statutes.*

## Fixed Assets

According to the Town's audited financial statements, fixed assets totaled \$6,579,068 (net of depreciation) as of September 30, 2000, consisting of \$1,592,535 for the Enterprise Funds and \$4,986,533 for the General Fixed Assets Account Group. Our review of the Town's management controls over fixed assets disclosed numerous deficiencies as discussed below.

### ***FINDING No. 14: Tangible Personal Property Records***

To ensure proper accountability and safeguarding of tangible personal property, the Town should maintain an adequate record of each property item. Pursuant to Section 2-92 of the Municipal Code, and Section 274.02, Florida Statutes, the Town was required to maintain property records and identify Town-owned property in the manner prescribed by Chapter 10.400, Rules of the Auditor General. Our audit tests disclosed the following deficiencies in the Town's tangible personal property records:

- Of 15 items selected from the property records for our physical examination, 6 pieces of equipment costing a total of \$57,232 could not be located. These included a copier, an external optical drive, a network server, a CRT terminal with software, and 2 computers. In addition, 3 of the 15 items were at locations other than the locations reported in the property records.
- The property records, for most of the 15 items selected, were lacking information such as the serial number; original cost or fair value at the time of purchase or donation; purchasing information, such as purchase order numbers or check numbers; or the manufacturer, make, or model information.
- Of 30 items selected from the property records or by physical inspection, 5 items (4 computers and 1 smoker grill) were not tagged or marked as

property of the Town. This is contrary to Section 10.460, Rules of the Auditor General, which requires that each item of property be permanently marked. In addition, the costs of 2 of the items, the smoker grill and a computer, were not recorded in the property records.

The deficiencies noted above serve to weaken the Town's control over tangible personal property and increase the possibility that errors or loss of property could occur and not be detected in a timely manner.

### **Recommendation**

**The Town should implement procedures to ensure that the tangible personal property records include all information necessary to properly identify property items. The Town should also ensure that all tangible personal property is tagged or marked with an identifying number. Further, the Town should report the missing property items disclosed by our tests to the Police Department for investigation.**

### **Town Response**

*Management partially concurs with the findings and recommendation of the Auditor General. During the summer of 2002, the current staff identified and tagged all of the fixed assets purchased during the 3 prior fiscal years and asset information records were added to the Fixed Asset System. Forms are being developed for tracking movement of assets between departments and asset custody will be monitored.*

*Regarding the missing equipment, further investigation has revealed that the Toshiba copier was upgraded with a new one now located in the Community Development Department. The HP external drive was located at Fire Station #2. Additional items appeared to have been auctioned and staff will investigate these items further.*

## **FINDING No. 15: Tangible Personal Property Inventory**

Pursuant to Section 2-92 of the Municipal Code, and Section 274.02, Florida Statutes, the Town is required to make a complete physical inventory of all property annually and whenever there is a change in inventory custodians. Further, the results of the inventory counts are to be compared with property records, and all discrepancies reconciled.

The Town reported furniture and equipment (tangible personal property) totaling \$3,158,755 at September 30, 2000. The Town did not perform an inventory of tangible personal property during the 2000-2001 fiscal year. In addition, when the Town outsourced its law enforcement functions to the Palm Beach County Sheriff's Office (PBSO) on October 1, 2000, no inventory was taken either before or after the PBSO moved in to the Town's former police headquarters (see Finding No. 32). As of May 2002, tangible personal property of \$526,576 was still listed in the property records as belonging to the Town's

police department, even though title to such property was transferred to the PBSO.

### **Recommendation**

**The Town should ensure that a complete physical inventory of tangible personal property is taken annually, and whenever a change of custodians occurs, and the results promptly reconciled to the Town's property records.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. During the summer of 2002, the Finance Department staff conducted a complete physical inventory of fixed assets. The Finance Department will continue to perform annual inventories as required by law.*

### **Long-Term Debt**

Pursuant to Section 166.111(1), Florida Statutes, the governing body of every municipality may borrow money, contract loans, and issue bonds from time to time to finance the undertaking of any capital or other project and may pledge the funds, credit, property, and taxing power of the municipality for the payment of such debts and bonds. Our audit included a review of selected financing arrangements as discussed below.

### ***FINDING No. 16: 1997 and 1998 Bond Issues***

On January 8, 1997, the Town Commission adopted Resolution No. 1997-1, which provided for a voter referendum to issue bonds totaling \$9,800,000 or less to pay for all or a portion of the cost of the acquisition, construction, equipping, and improving of the Town Marina, Kelsey and Lakeshore Parks, the Park Avenue/Downtown, the Town Hall, a fire station, a library addition, and all costs necessary and incidental thereto. On March 11, 1997, voters approved the referendum, and the Commission subsequently adopted Resolutions Nos. 1997-44 and 1998-65 to issue \$4,800,000 and \$5,000,000 in bonds, respectively, to carry out the above projects. Net bond proceeds after issue costs totaled \$9,782,500.

Our audit disclosed the following control weaknesses regarding the administration of the bond proceeds:

- In addition to the bond proceeds, the Town used other sources of financing for these projects; however, the Town did not separately account for the use of the other sources of financing. Consequently, the Town records did not provide a breakdown of bond proceeds expended by project. However, the following schedule, which is based on records kept by the Finance Director, shows amounts expended from all financing sources (bond proceeds, interest earnings from bond proceeds, and grants) by project as of January 31, 2002.

Project	Original Estimated Project Cost	Amount Expended From All Sources	Difference Under/(Over) Original Estimate
Marina (a)	\$4,800,000	\$1,175,949.73	\$3,624,050.27
Kelsey/Lakeshore Parks	1,311,000	1,692,786.84	(381,786.84)
Park Avenue/Downtown	2,005,000	2,870,936.01	(865,936.01)
Fire Station	850,000	1,730,463.82	(880,463.82)
Town Hall (a)	600,000	2,172,494.54	(1,572,494.54)
Library	240,000	550,471.85	(310,471.85)
Total	\$9,806,000	\$10,193,102.79	\$(387,102.79)
(a) Project was not yet complete as of January 2002.			

- Although requested, we were not provided with documentation evidencing how the Town estimated the project costs. Absent such documentation, it is not apparent how the Town determined how much bonded debt was needed, together with other financing sources such as grant moneys, to cover the costs of the bonded projects.
- The Town did not, of record, establish specific completion dates for the projects. Although the 1998 bond issue proceeds were received on November 17, 1998, two of the projects, the Town Hall and the Marina, were still not complete as of January 31, 2002, over three years later.
- The Town did not document, of record, that all expenditures paid from bond proceeds were necessary and incidental to the projects. Between October 1997 and April 2001, the Town used bond proceeds to pay all or a portion of the salaries of five Town employees totaling \$410,072. The Town did not maintain work orders, work logs, or other documentation to show that the employees paid from the bond proceeds actually worked on projects. In addition, the Town paid \$46,000 from bond proceeds between March 1999 and February 2000 to a consulting firm to procure grant funding for various projects. Town records indicate that the consultants applied for 19 grants, but only 8 of the grants were related to projects. Although requested, we were not provided with a breakdown of the costs associated with the procurement of the individual grants. Consequently, the Town has not demonstrated, of record, how much of the \$46,000 was used for grants related to the projects.
- Of the 8 grants noted above related to projects, for which the Town had paid a consulting firm to apply for such grants, 2 totaling \$122,089 expired without being used. On November 1, 2001, a Florida Boating Improvement Grant in the amount of \$100,000 expired because the Town was unable to complete its Marina renovation project during the allotted time. Similarly, on September 3, 2001, a Clean Vessel Act Grant totaling \$22,098 expired because the Town did not successfully complete the Marina renovation project prior to that date. On February 11, 2002, the Town requested an extension for the Clean Vessel

Act Grant from the Florida Department of Environmental Protection; however, the Town has not yet received a response. Because the Town did not timely incur costs related to the Marina renovation project prior to the expiration of the above-noted grants, it lost out on the opportunity to be reimbursed for such costs and, as such, effectively negated any benefits that could have been realized from paying consultants to prepare grant applications for these grants.

The deficiencies noted above demonstrate weaknesses in the Town's control over the allocation and use of its bond proceeds and increase the risk that errors or irregularities could occur and not be detected in a timely manner. In addition, these deficiencies may have contributed to the failure to complete the planned projects in a timely manner and to the deteriorating financial conditions discussed in Finding No. 5.

### **Recommendation**

**Prior to undertaking significant capital projects in the future, the Town should adequately plan such undertakings by documenting estimated project costs and establishing estimated completion dates. Additionally, the Town should clearly document the use of all restricted bond moneys and monitor the usage of the moneys to ensure that they are only expended for allowable purposes. Further, the Town should ensure that construction costs are timely incurred to allow the Town to efficiently use available grant financing.**

### **Town Response**

*Management partially concurs with the findings and recommendations of the Auditor General. The current Town Management is closely monitoring the Marina Project to ensure timely completion and reimbursement of grant financing.*

*Regarding the timeframe for completion the AG reported that the Town Hall and the Town Marina were not completed within (3) three years. The Town Hall, as a significant historical structure, entailed many details and considerations that would not have been present in a new construction. If you reference this project against other historical restorations of similar nature and scope you would find similar issues with those projects (i.e. cost overruns and extended completion dates).*

*The timing of the Town Marina completion was affected by both technical and political factors. The permitting process for such an undertaking is time consuming. There were also legal concerns that had to be fleshed out between the Town and Riviera Beach property owners. The assembly of land through eminent domain that will constitute the upland parking was also time-consuming. Political considerations came into play over the nature and scope of the project causing further delay. Again, both of these projects are dynamic endeavors not given to definitive timelines.*

*All future projects, regardless of funding, will have a cost analysis and will not begin until a budget has been approved by the Town Commission.*

## ***FINDING No. 17: Property Renovation Loan***

On August 2, 2000, the Commission adopted Resolution No. 2000-42, which authorized the Town to borrow up to \$700,000 from a local financial institution to renovate Town-owned property at 900 Park Avenue with a term of not less than 15 years and at an interest rate not in excess of 8.75 percent. On January 24, 2001, the Town entered into a \$700,000 loan agreement, but contrary to the Resolution, the term of the loan was only 6 years. The Town Commission did not, of record, approve the loan or otherwise approve deviation from Resolution No. 2000-42.

Under the terms of the loan, the Town makes no payments the first year, makes semi-annual payments in years two through six, and must pay off the remaining balance due on January 24, 2007. Although the payment terms will result in the Town paying out less cash during the six-year period than it would have had under a 15-year loan, the Town will then be faced with a large balloon payment during the 2006-2007 fiscal year. Unless the Town takes actions to address the deteriorating financial conditions discussed in Finding No. 5, the Town may not be in a position to make such a payment at that time.

We also noted that, contrary to good business practice, the Town did not use a competitive selection process to obtain the financing. As a result, the Town did not demonstrate, of record, that it had obtained the lowest cost financing available.

### **Recommendation**

**The Town should ensure that future financings are done in accordance with applicable Resolutions. In addition, the Town should use a competitive selection process when obtaining financing.**

### **Town Response**

*Management partially concurs with the findings and recommendations of the Auditor General. The current Town Manager and Finance Director recognize the importance of the competitive bid process in securing the most favorable financing for the Town. Competitive bids will be secured on all future financing.*

*It should be noted that there is strong interest in the private acquisition of the Post Office building and that the Town has disposed of other properties that would allow for a deficit in the sale. Management therefore maintains that the Town is not in jeopardy regarding the scheduled balloon payment.*

Restricted Resources

**FINDING No. 18: Accountability for Restricted Revenues**

Pursuant to Section 218.33(2), Florida Statutes, local governmental entities must follow uniform accounting practices and procedures promulgated by the Florida Department of Banking and Finance (FDBF). The FDBF has developed a *Uniform Accounting System Manual (Manual)*, which establishes financial accounting and reporting requirements for all units of local government. Chapter 1 of the *Manual* requires that local governmental entities use the classification of funds as prescribed in the *Manual* and classifies a special revenue fund as the fund to use "To account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes." Accordingly, to maintain separate accountability for restricted revenue sources, the Town should establish a special revenue fund for each type of restricted revenue source in accordance with the *Manual*.

During the period October 2000 through January 2002, the Town received \$294,306 of municipal motor fuel taxes pursuant to Section 336.025, Florida Statutes, which may be used only for specific transportation expenditures as defined by Sections 336.025(1)(b)3. and 336.025(7), Florida Statutes. These moneys were accounted for in the General Fund together with unrestricted Town revenues. Failure to account for restricted revenues through the use of separate special revenue funds limits the Town's ability to control the use of restricted moneys and demonstrate in its public records that such moneys were used for authorized purposes.

**Recommendation**

**The Town should establish accountability for each restricted revenue source through the use of a separate special revenue fund in accordance with the FDBF Manual. To the extent practical, the Town should review balances on hand and recent transactions to ensure that all restricted moneys have been used for authorized purposes.**

**Town Response**

*Management concurs with the findings and recommendations of the Auditor General.*

**FINDING No. 19: Local Option Fuel Tax**

During the period of October 2000 through January 2002, the Town received \$94,283 of Local Option Fuel Tax moneys from a tax of \$0.05 imposed on every gallon of motor fuel sold in the County pursuant to Section 336.025(1)(b), Florida Statutes.

Section 336.025(1)(b)3., Florida Statutes, provides that county and municipal governments shall use the tax proceeds of the additional \$0.05 Local Option Fuel Tax for only those transportation expenditures needed to meet the requirements of the capital improvement element of an adopted comprehensive plan. The Town's capital improvement element of the adopted comprehensive plan did not include specific transportation projects, such as the planned construction of new roads, the reconstruction or resurfacing of existing paved roads, or the paving of existing graded roads.

As discussed in Finding No. 18, the Town did not separately account for the proceeds and uses of the \$0.05 and \$0.06 taxes. However, in response to our inquiry, we were advised that the Town's use of the \$0.05 additional Local Option Fuel Tax proceeds included expenditures related to its Police Road Patrol, street lighting, and street maintenance. These expenditures do not appear to be consistent with the restrictions imposed by Section 336.025(1)(b)3., Florida Statutes.

### **Recommendation**

**The Town should amend its comprehensive plan to provide for specific uses of the additional \$0.05 Local Option Fuel Tax. Also, to the extent that the additional \$0.05 Local Option Fuel Tax proceeds received between October 2000 and January 2002 were not used for allowable transportation expenditures, such revenues should be restored from available unrestricted resources to the Special Revenue Fund and used for authorized purposes.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The restrictions placed on the New Local Option Fuel Tax will require the Town to amend the Comprehensive Plan to include allowable projects. The balance of funds on hand at the end of fiscal year 2002 will be determined and transferred to the newly established Special Revenue Fund.*

## **FINDING No. 20: Grant Reimbursements**

The Town routinely receives grants requiring the Town to incur allowable expenditures prior to receiving grant moneys. While our testing revealed that the Town had requested reimbursement for expenditures incurred under reimbursement grants within the time limits established by the grantor agencies, we found that the Town did not request reimbursement for expenditures of \$69,800 used to renovate the Town Hall incurred pursuant to a historical preservation grant until 235 days after the last of these expenditures were incurred.

## **Recommendation**

To efficiently manage cash flow, the Town should continue its recent efforts to monitor grant activity, and ensure that it requests grant moneys promptly after the Town becomes eligible to receive those moneys.

## **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. Departments responsible for completion of grant reimbursement requests have been instructed to prepare and submit such request in a timely manner. These requests will also be monitored by the Finance Department.*

## **Cash Controls and Administration**

Collections of various taxes, fees, and charges are generally received at the Town Hall. The Town also collects cash through decentralized collection points, including the Marina, Library, recreation department, fire department, and Clerk's office. However, all collections are delivered to the finance department prior to deposit. Town management is responsible for establishing adequate controls that provide reasonable assurance that cash collections are safeguarded against loss from unauthorized use or disposition. To accomplish this, management should establish controls that include appropriate documentation procedures, separation of duties among employees, and independent internal verification procedures.

## ***FINDING No. 21: Responsibility for Collections***

An adequate control structure requires that collections be recorded at the initial point of collection to establish accountability for the collections as soon as possible. In addition, transfers of collections between employees should be properly documented from the time of collection to deposit. Our audit disclosed that responsibility for collections was not documented from time of collection to subsequent deposit as follows:

- Collections received through the mail were not documented at the initial point of collection through the use of a mail log or by other means.
- Collections were transferred between Town personnel without the use of transfer documents to evidence the transfer of collections.

As discussed in Finding No. 3, there is an increased risk that a loss of collections could occur because of an inadequate separation of duties related to collections. Under the above conditions, should a loss of collections occur, it may not be possible for the Town to fix responsibility for the loss to the appropriate individual.

### **Recommendation**

**The Town should establish procedures that require all collections to be recorded at the initial point of collection and provide for evidence of transfers of collections among employees.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General as it pertains to the transfer of collections. Collections transferred between departments and the cashier often involves cash and there needs to be a transmittal document and procedure to account for the collection transfer. A procedure and forms will be developed by the Finance Department.*

*It is the opinion of the Finance Director that the use of a mail log for collections would be too time consuming to incorporate into the daily routine. Staff will explore other means to document mail collections.*

### **FINDING No. 22: Sanitation Fee Collections**

Residential customers receiving sanitation services were billed as part of their residential property tax bill, or periodically as needed for special fees, whereas commercial customers were billed on a monthly basis at a flat rate. For collection efforts to be effective, such efforts must be both timely and progressively strengthened. Deficiencies in either area may limit the Town's ability to maximize its collections. As of May 28, 2002, the Town had uncollected sanitation fees totaling \$63,479 that had been outstanding for more than 60 days. The Town has not established procedures regarding unpaid sanitation fees. Such procedures could include the mailing of past-due notices and referrals of delinquent accounts to a collection agency. Further, delinquent accounts were not subject to interruption of service for non-payment during the audit period. The Town's inability to collect these receivables may have contributed to the cash shortage/liquidity problems as discussed in Finding No. 5.

### **Recommendation**

**The Town should implement procedures for collecting unpaid sanitation fees. Such procedures should include monitoring uncollected amounts, providing written notification of delinquency to customers, and use of collection agencies, liens on property, or other legal action.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The Town has proceeded to increase its efforts in the collection of sanitation receivables. On September 10, 2002 the Public Works Director (in charge of sanitation) and the Assistant to the Finance Director (in charge of billing sanitation) both attended a*

*seminar dealing with collecting delinquent accounts. The Public Works Director working with the Assistant to the Finance Director have implemented new procedures in the collection of past due accounts. Delinquent accounts are now being sent past due notice letters, payment arrangements are being made, and in cases where there is no response, the Town Attorney will be filing liens or taking appropriate legal action.*

### **Personnel and Payroll Administration**

The Town has approximately 60 employees. The Town Commission has adopted several ordinances and resolutions related to officer/employee compensation and other personnel policies and procedures, including an Employee Handbook approved by the Town Commission on May 1, 1996, by Resolution No. 1996-19. Our audit disclosed deficiencies in personnel and payroll administration as discussed below.

#### **FINDING No. 23: Hiring Practices**

Effective control over the hiring of new employees includes verification of employment history or educational experience prior to offering employment, and the maintenance of personnel files that include completed applications, letters of reference, college transcripts (if applicable), and other appropriate documentation evidencing authorized personnel actions. Our test of employees hired between October 1, 2000, and January 31, 2002, disclosed the following:

- For seven employees hired into positions that required a college degree, the Town obtained photocopies of degrees; however, the Town did not, of record, verify these employees' minimum educational requirements directly with the educational institution (i.e., the Town did not require the employees to provide transcripts). Absent such verification, the Town cannot determine with certainty that the employees met the minimum educational requirements for their positions.
- One employee was hired for the position of Assistant to Finance Director without meeting the minimum educational requirements for the position. According to the Town's position description, the position requires a "Bachelor's degree from an accredited college or university with a major in accounting preferred; or the equivalent combination of education and experience." The employee did not meet the educational requirements for the position, but the employee's initial Personnel Action Report specified that the employee be hired providing that he enroll in a course of study to obtain a Bachelor's degree within one year of employment and that should the employee drop out of the agreed courses, the position would be in jeopardy. Although requested, we were not provided documentation evidencing that the employee subsequently met the educational requirements. Further, the Town currently does not have any written policies that permit conditional

employment for applicants that are not otherwise qualified according to job position description requirements at the time of hiring.

- For one employee, the Interim Town Manager hired October 3, 2001, the personnel file did not contain a completed employment application, but contained only a Personnel Action Report specifying the pay rate and a note indicating that the Commission directed the Human Resources Director to hire the Interim Town Manager at the October 3, 2001, Commission meeting. Absent a completed employment application, the Town has not, of record, demonstrated that the individual hired as Interim Town Manager was qualified to fill that position.

### **Recommendation**

**The Town should require applicants for positions with specific education requirements to request that the educational institution send official transcripts to the Town evidencing that minimum educational requirements were met. Consistent with the Town Commission's intentions, the Town should develop procedures for granting conditional employment specifying the conditions in which conditional employment can be granted, the individuals authorized to grant the conditional employment, and the individuals responsible for verifying that conditional employment requirements are subsequently met. Further, the Town should require that job applications be completed for all job applicants and that the applications be retained on file for all employees.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. All employees hired into positions requiring specific training and/or a college degree have been notified to contact the university or agency where their degree or certification was earned to request that transcripts be sent directly to the office of Administrative Services. Upon receipt, the transcripts will be placed directly in the employee's personnel file.*

*All persons being hired into positions requiring specific certifications or degrees will not begin his or her employment with the Town of Lake Park until the training or college transcript has been received by the office of Administrative Services.*

*The employee that was hired to fill the position of Assistant to the Finance Director is set to begin classes at Palm Beach Community College in pursuit of the required Bachelor's Degree in Accounting. An Education Agreement between the employee and the Town has been signed and will be placed in the employee's personnel file.*

*Job Classification Descriptions requiring a formal degree may be adjusted to allow for consideration of prior work experience or a combination of work experience and training in lieu of a formal degree.*

*All persons applying for a position with the Town of Lake Park are required to complete an "Application for Employment" form. The elected officials of the Town of Lake Park appointed an Interim Town Manager on October 3, 2001 without first requiring a completed employment application. An employment application has since been completed and placed in the employee's personnel file.*

#### **FINDING No. 24: Compensatory Leave**

The Town awards compensatory leave for hours worked in excess of 40 hours per week to employees considered to be "non-exempt" employees as defined by the Fair Labor Standards Act. Additionally, the Town awards executive leave to "exempt" employees who work in excess of 40 hours per week.

The Town does not centrally track compensatory and executive leave earned and used within its payroll system. Rather, individual department heads manually track compensatory/executive leave earned within their own departments. Without a centralized tracking mechanism, Town management does not have a reliable measure of the amount of compensatory and executive leave currently accrued for all of the Town's departments. For example, when the Town outsourced its law enforcement function to the Palm Beach County Sheriff's Office (PBSO), the Town agreed to pay \$25,478 to the PBSO for all unused compensatory and executive leave accrued by police officers that elected to work for the PBSO (see Finding No. 32). Leave records were unavailable to document that this amount was based on valid leave balances.

#### **Recommendation**

**The Town should keep detailed centralized records of all compensatory and executive leave earned, used, and available for all employees.**

#### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The policy regarding Executive Leave will be removed from the Town of Lake Park Policy Handbook through a Resolution of the Mayor and Commission at the October 16, 2002 regular Commission Meeting.*

*Compensatory Time is addressed in the Town of Lake Park's Policy Handbook. All Compensatory Time is tracked by each department. An "overtime slip" is completed by the employee. The employee selects to be paid in cash or compensatory time with the approval of his/her department head. No employee is permitted to accrue more than 24 hours of compensatory time unless accrual limits are specifically addressed within a union contract. All compensatory time will be utilized by the employee before the employee may make use of annual leave. The completed slip is turned into the Finance Department along with the department payroll sheet. The original copy of the overtime slip is kept by the Finance Department as directed by the State of Florida Division of*

***FINDING No. 25: Insurance Overpayments***

The Town did not timely notify providers of employee benefits (health, dental, vision, and life insurance, and family counseling services) about employee terminations, resulting in the Town overpaying \$163,951 between October 1, 2000, and January 31, 2002. Of this amount, the Town was unable to recover \$40,694, including \$38,747 of health insurance overpayments. The health insurance company did not refund the \$38,747 of premium overpayments because some terminated employees incurred insurance claims subsequent to termination.

**Recommendation**

**The Town should promptly notify all employee benefit providers of employee terminations. In addition, all invoices from benefit providers should be promptly reconciled to listings of active employees and differences timely resolved.**

**Town Response**

*Management concurs with the findings and recommendation of the Auditor General. All employees who voluntarily terminate their employment or are terminated from their positions with the town are removed from coverage on the last day of the month of termination. A review of the billing statements is completed monthly upon receipt to insure accuracy. Benefits are offered to departing employees through COBRA.*

**Procurement of Goods and Services**

The authority for Town officials to expend moneys is set forth in various provisions of general or special law and in ordinances enacted by the Town Commission. Expenditures of public funds must, to qualify as authorized expenditures, be shown to be authorized by applicable law or ordinance; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. These limitations require Town officials seeking to expend public funds to identify the authority relied upon for the contemplated expenditure and to adequately describe how the expenditure will further an authorized public purpose.

The documentation of an expenditure in sufficient detail to establish the authorized public purpose served, and how that particular expenditure serves to further the identified public purpose, should be present at the point in time when the voucher is presented for payment of funds. Unless such documentation is present, the request for payment should be denied. To provide documented assurances that expenditures of Town funds are for authorized public purposes, Town officials are

responsible for establishing and maintaining controls, including the adoption of sound accounting practices, that will provide for the proper recording processing, summarizing, and reporting of financial data.

Our detailed findings and recommendations concerning the public purpose for particular expenditures and the adequacy of documentation to demonstrate such public purpose, are presented under appropriate subheadings below.

#### ***FINDING No. 26: Credit Cards***

As of May 2002, the Town had four credit cards with credit limits totaling \$13,500. Between October 1, 2000, and January 31, 2002, the Town's employees charged \$39,121 using Town credit cards, primarily for travel expenses.

The Town Commission did not approve, of record, the issuance of the Town's credit cards, nor did it adopt an ordinance or, resolution, or otherwise provide guidance, as to the proper use of assigned credit cards. Nor did the Town require users of the credit cards to sign written agreements specifying acceptable uses of credit cards. Our audit tests disclosed that credit card charges were generally supported by receipts; however, we noted one charge of \$152.86 for which there was no accompanying receipt. Although requested, Town personnel were unable to provide a receipt for the charge, so we were unable to determine the exact nature of the charge and whether the charge was incurred for a valid business purpose.

Absent a written policy that sets forth allowable usage of the Town's credit cards, there is an increased risk of inappropriate credit card transactions.

#### **Recommendation**

**The Town Commission should enact written policies and procedures governing the control and use of credit cards. Such policies should specify appropriate credit card uses, require that credit cards be used only for public purpose, and require all employees receiving credit cards to sign a written agreement evidencing their understanding of, and agreement with, the Town's credit card policies and procedures.**

#### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The Finance Department will draft written policies and procedures governing the use of the Town credit cards.*

## ***FINDING No. 27: Disbursement Processing***

Our test of 80 expenditure vouchers totaling \$489,009 disclosed deficiencies in the Town's disbursement processing procedures that may limit the Town's ability to ensure that goods and services are received in the quantity and quality contemplated by management's authorization. Specifically, for 10 (13 percent) of these expenditure vouchers totaling \$38,648, we noted one or more of the following deficiencies:

- In 7 instances, purchases were not supported by a purchase requisition or purchase order. Purchase orders and purchase requisitions serve to document management's authorizations to acquire goods and services, document the specifications and prices of the goods and services ordered, provide a basis for controlling the use of appropriated resources through encumbrances, and authorize vendors to provide goods and services to the ordering agency.
- In 4 instances, purchase requisitions or purchase orders lacked one or more required signatures. Section 2-102 of the Municipal Code requires all expenditures between \$500 and \$4,999 to be approved by the Finance Director or his or her assistant, and that all expenditures between \$5,000 and \$24,999 be reviewed by the Finance Director and approved by the Town Manager.
- In 3 instances, supporting documentation for the payments lacked a signature indicating that the goods and services were received by a Town employee authorized to approve receipt of goods and services.

The absence of adequate supporting documentation, including properly approved purchase requisitions and purchase orders, and evidence that goods and services have been received, increases the Town's risk of paying for unsubstantiated or improper expenditures.

### **Recommendation**

**Town personnel should ensure that all voucher packages include purchase requisitions and purchase orders with all required signatures, and evidence that goods and services were received by authorized employees.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The staff of the Finance Department has been notified of their responsibility in the audit of invoices for payment. Currently, the Finance Director reviews all payments and backup materials for conformity to purchasing policy and procedures before he signs the check for payment.*

***FINDING No. 28: Inadequately Documented/Unauthorized Expenditures***

Our audit disclosed expenditures totaling \$938.74 for which the Town's records did not clearly demonstrate that a public purpose was served. Specifically, we noted a \$38.81 expenditure for a Mayor's luncheon, a \$500 expenditure for a volunteer party, a \$339.93 expenditure for an employee Christmas party, and \$60 for two Town employees to participate in a golf tournament. It was not apparent how these expenditures benefited the public. According to Attorney General Opinion No. 68-12, absent specific legal authority, expenditure of public funds for hospitality and entertainment are not proper expenditures of public funds. We are unaware of any such specific authority in law regarding expenditure of Town moneys.

We noted eight disbursements, totaling \$18,007, that were not adequately supported by detailed invoices or other supporting documentation. Supporting documentation for three of these disbursements totaling \$3,031 was subsequently provided by the departments that originated the purchase.

**Recommendation**

**The Town, in the future, should clearly document in its public records that expenditures serve a public purpose, are reasonable, and necessarily benefit the Town.**

**Town Response**

*Management has noted the opinion of the Auditor General and will apply it when applicable. Policy is being formulated.*

**Contractual Services**

The Town is responsible for establishing controls that provide assurance that the process of contracting for services is effectively and consistently administered. As discussed below, our audit disclosed several deficiencies regarding the Town's contracting for services.

***FINDING No. 29: Written Agreements***

As a matter of good business practice, contractual arrangements for services should be evidenced by written agreements embodying all provisions and conditions of the procurement of such services. The use of a formal written contract protects the interests of the Town, identifies the responsibilities of both parties, defines the services to be performed, and provides a basis for payment. The Town did not maintain copies of written agreements for the following contractors:

- A consultant that was paid \$46,000 in twelve equal payments of \$3,833.34 for grant-writing services.
- A consultant that was paid \$411,302 in connection with the Town Marina renovation project.
- The West Palm Beach Fire Department, which was paid \$4,124 pursuant to an interlocal agreement for emergency transportation billing services. At our request, Town personnel subsequently obtained a copy of the interlocal agreement from the West Palm Beach Fire Department.
- An investment advisor that managed the Town's Police Officers' and Firefighters' Pension Plans. As discussed in Finding No. 35, Town records did not indicate how much the investment advisor was paid for these services. At our request, Town personnel obtained a copy of a written agreement with the investment advisor regarding the Firefighters' Pension Plan.

Absent written contracts specifying the nature of services to be performed and the amount of compensation to be provided, the Town cannot be assured that contractual payments are in compliance with the intent of the Town Commission and that the Town received the services to which it is entitled at agreed upon prices.

### **Recommendation**

**The Town should ensure that future payments for contractual services are made pursuant to a written agreement documenting the nature of services to be performed and the compensation for such services.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The staff of the Finance Department has been instructed that a copy of the signed contract must be on file in the Finance Department before a contract payment can be made to the contractor. This has already been implemented and is working very well.*

## **FINDING No. 30: Competitive Selection Process**

As a matter of good business practice, procurement of services should be done using a competitive selection process to provide an effective means of equitably procuring the best quality services at the lowest possible cost. In addition, the Municipal Code provides that quotes, bids, or proposals, depending on dollar thresholds, are to be obtained when contracting for goods or services. Our audit disclosed deficiencies regarding the selection of contractors as follows:

- On July 11, 2001, the Town Commission discussed changing financial institutions because its current financial institution, Wachovia Bank, was closing its Lake Park branches. The minutes reflect that the Commission recommended finding the best rates for the services required. However, Town personnel opted to select the only bank remaining within the Town limits without obtaining proposals from other nearby banks or otherwise using a competitive selection process to find a replacement bank. As such, it was not apparent how Town personnel had complied with the Commission's directive to obtain the best rates for the services required. Town personnel advised us that they understood the Commission desired to bank with the only remaining bank within the Town limits; however, there was no indication of this in the minutes.
- Section 2-105(g) of the Municipal Code states that the Town shall procure professional architectural services in accordance with Section 287.055, Florida Statutes. Pursuant to Section 287.055, Florida Statutes, the Town must publicly announce, in a uniform and consistent manner, each occasion for which professional services must be purchased for a project with an estimated construction cost of \$250,000 or greater. After evaluating no fewer than three firms in terms of qualifications and performance, the Town must negotiate a contract with the most qualified firm for professional services at a compensation that is fair, competitive, and reasonable. The Town made payments totaling \$90,898 to an architect in connection with Town Hall renovations. As of January 2002, actual construction costs on the Town Hall renovations project totaled \$2,172,494.54 (originally estimated cost was \$600,000). Contrary to the Municipal Code and Florida Statutes, the Town did not, of record, use a competitive selection process to select the architectural firm. Without using a competitive selection process when acquiring contractual services, the Town cannot be assured that such services are being obtained at the lowest cost consistent with acceptable quality and performance.

### **Recommendation**

**The Town should comply with the competitive selection provisions of Section 2-105(g) of the Municipal Code and Section 287.055, Florida Statutes, when acquiring professional architectural services for the Town.**

### **Town Response**

*Management partially concurs with the findings and recommendation of the Auditor General. Management is currently preparing an RFP for banking services and the competitive bid process will be followed in the future. Subsequent to the delivery of the Preliminary and Tentative Findings by the Auditor General's Office staff discovered that Heisenbottle Architects was selected in a competitive process through an RFP issued in 1996.*

## ***FINDING No. 31: Inadequate Support for Contractual Expenditures***

Our test of contractual services disclosed 12 payments to contractors that were not adequately supported by detailed invoices as follows:

- Ten payments totaling \$4,747 for reimbursable expenses paid to consultants, for items such as travel, reproduction fees, meals, and communications, were not supported by receipts or other documentation showing miles driven, number of reproductions, meals eaten, and phone calls or faxes made.
- For one payment of \$32,330 to a consultant for services connected with the Town Marina renovation project, the invoice showed an amount due for “professional services,” but did not indicate the exact nature of the services performed. At the request of the Town, the professional services firm provided a breakdown of the invoice into three smaller amounts of \$11,330, \$2,700, and \$18,300; however, documentation showing a breakdown of hours worked, services provided, or method by which reimbursable expenditures were determined was not provided.
- For 12 payments totaling \$46,000 to a grant-writing consultant, invoices did not provide a breakdown of hours worked, hourly rates, or specific grant applications drafted.

Without detailed supporting documentation accompanying each request for payment, it is unclear how the Town determined that the compensation for services provided was reasonable and that services were provided in accordance with the agreed upon terms.

### **Recommendation**

**The Town, prior to making future payments for contractual services, should require contractors to provide documentation sufficient for the Town to determine exactly what services were provided and whether the services were billed in accordance with agreed upon terms.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. All vendors are to submit detailed invoices that can be reviewed for compliance with their contract. Furthermore one of the first steps taken by the current management vis-à-vis records management was the centralization of records management within the Town Clerk’s office as opposed to the past practice of a decentralized system.*

***FINDING No. 32: Contract for Police Services***

The Town entered into a four-year contract dated October 1, 2001, with the Palm Beach County Sheriff's Office (PBSO), whereby the PBSO agreed to provide police protection, previously provided by the Town, to the Town's citizenry. The contract provided that the PBSO would be paid \$1,450,000 annually, subject to an annual increase not to exceed eight percent, and that the Town would reimburse the PBSO for certain expenses related to the outsourcing. In addition, the Town agreed to lease the building in which police headquarters was located to the PBSO for \$10 per month with the Town continuing to pay for related expenses such as utilities, internet services, and property insurance. The PBSO gave Town police officers the option of continuing employment with the PBSO, assuming that minimum PBSO job qualifications were met, or resigning. We noted several deficiencies regarding the contract as follows:

- The Town, as a result of the outsourcing of police services, should realize annual savings related to payroll, vehicle maintenance, and other costs that it will no longer incur in connection with operating a police department. However, the Town did not, of record, perform a comprehensive cost/benefit analysis associated with the outsourcing of the police function to determine that the outsourcing was economically beneficial to the Town. Consequently, we were unable to determine whether the cost savings noted above will be sufficient to offset future payments, and payments already made, to the PBSO and other incidental costs incurred in connection with the outsourcing of police services.
- For those police officers that opted to continue employment with the PBSO, the Town transferred all vacation, sick, and compensatory leave to the PBSO. The Town agreed to pay the PBSO \$147,608 for the value of these transferred leave hours; however, the leave balances of several transferred employees, as specified in the contract, were inaccurate. The Town subsequently recalculated the leave balances and has indicated that the PBSO will accept the recalculated amount of \$139,646, although the Town, as of the time of our review in May 2002, had not yet paid the PBSO this amount. In addition, four administrative police employees were each granted 96 hours of additional sick leave to be transferred to the PBSO. Town personnel were unable to provide an explanation as to why these extra hours were granted. Also, the Town lacked support for the amount of compensatory leave hours transferred to the PBSO (see Finding No. 24 regarding deficiencies in the Town's compensatory leave tracking procedures).
- The contract indicates that certain equipment listed in Schedule 4.0 of the contract was to be transferred to the PBSO. Three of the vehicles listed on the equipment schedule were leased vehicles for which the Town did not hold title. The PBSO subsequently declined delivery of the vehicles. In addition,

as discussed in Finding No. 15, the Town did not perform an inventory of equipment either before or after the equipment transfer.

- The contract specifies that at the end of the contract, the PBSO is to return all equipment and vehicles to the Town or pay the Town the appraised value of such equipment and vehicles. However, the contract goes on to say that if the agreement is terminated prior to the expiration of the term and within five years of the effective date of the agreement “the TOWN shall compensate PBSO for the retransfer of such vehicles and equipment in an amount equal to the difference between their fair market value of such vehicles and equipment transferred by TOWN as reflected in Schedule 4.” This language is confusing as to exactly how this transfer is to occur, although it appears that calculations are to be performed based upon the relative value to the equipment transferred by the Town to the PBSO compared to the value of the equipment transferred back to the Town at the end of the contract. However, since the schedule of equipment within the contract lacks any established equipment values, it is unclear how these calculations would be performed. Further, it is not apparent why, in the event that the agreement is terminated within five years, the Town should compensate the PBSO for the return of the vehicles and equipment.
- The contract indicates that the Town is to reimburse the PBSO for the purchase of certain radio equipment; however, the contract did not specify how the purchase amount was to be determined. Although requested, we were not provided with additional information clarifying this portion of the contract. In response to our inquiry in August 2002, the Finance Director stated that the Town had not yet paid the PBSO for the radio equipment.
- The Town entered into settlement agreements with its police officers prior to termination whereby the officers gave up their right to sue the Town in exchange for two weeks’ severance pay and the option of purchasing hand guns for \$1. The Town’s normal termination procedures per the union contract and Town’s Commission approved Employee Handbook do not provide for severance pay or bargain purchases of equipment. Although requested, we were not provided with documentation evidencing the Town Commission’s approval of the settlement agreements.

### **Recommendation**

**The Town should perform a comprehensive cost/benefit analysis regarding the contract for police services to ensure that the Town entered into an economically advantageous agreement and, if appropriate, seek to amend the terms of the agreement.**

### Town Response

*Management concurs with the findings and recommendation of the Auditor General. Management will provide a more detailed cost/benefit analysis for potential outsourcings.*

### **FINDING No. 33: Contract for Fire and Emergency Services**

The Town entered into a contract dated June 5, 2002, with Palm Beach County (County), whereby the County agreed to provide fire and emergency services to the Town's citizenry. The contract stipulated that the agreement does not constitute a transfer of powers, and requires that the Town Manager oversee and monitor the County's performance of the services provided for in the agreement. However, Section 4(B) of the contract goes on to say, "Notwithstanding the Town's ultimate authority and responsibility for the oversight of services provided hereunder, the rendition of services, standards of performance, discipline of officers and employees, and all other matters incidental to [the] County's control of its personnel and the performance of services including, but not limited to, equipment, facilities, agreements for automatic/mutual aid, and implementation of its policies and procedures, shall reside with the County." It appears that, in substance, the Town may be attempting to transfer ultimate responsibility for supervising fire and emergency services to the County.

Article VIII, Section 4 of the State Constitution provides that a voter referendum is required for the transfer of any function or power from a municipality to a county. The courts and Attorney General have indicated numerous times that this provision requires a dual referenda to transfer ultimate responsibility for supervising services from one local governmental entity to another, although a contractual arrangement which does not divert the ultimate authority of such supervision does not require the referenda. It is not clear in this situation whether the ultimate supervisory power or function of the Town over fire and emergency services is to be transferred to the County. The Attorney General, in Attorney General Opinion No. 92-33, indicated that such a determination would be made by examining the language of the resolution, documents or contracts transferring the powers. The Attorney General further states that his office "may not substitute for local counsel in providing an interpretation of such documents."

### Recommendation

**The Town should review this arrangement with their legal counsel to determine if referenda are required or whether their contractual arrangement should be revised to clearly indicate that the Town retains ultimate supervisory control over fire and emergencies services.**

### Town Response

*Management does not concur with the findings of the Auditor General. The contract was subject to both Town Attorney and County Attorney review prior to execution. However; management will submit the documentation to the Attorney General's Office for review and move to have the contract language amended should such direction be advised.*

### **FINDING No. 34: Contract for Construction Services**

On October 16, 2000, the Town, with the Commission's approval, entered into a contract with a construction firm to renovate the interior of the Town Hall. The contract specified that the Town would pay the construction company as work was completed less a 10 percent retainage withholding. The contract provided that retainage could be subsequently reduced if both the Town and the architect approved the retainage reduction. Our test of contractual expenditures disclosed one instance in which the retainage withholding percentage was reduced from 10 percent (\$72,108) to 5 percent (\$36,054) without written approval, of record, from Town personnel or the Town Commission. We were advised that the reduction in the retainage rate had been verbally approved; however, no documentation was available to affirm this assertion.

The Town's normal practice for contractor billings is for the contractor to submit an application for payment showing the contract amount adjusted for change orders, payments to date applied to the contract, current amount due, and balance to complete the project. The architect then inspects the contractor's work and signs the application for payment to indicate that the work was satisfactory. We noted payments for the Town Hall Renovation totaling \$16,076 that were billed separately rather than being included on applications for payments. Consequently, retainage was not properly withheld, and there was no evidence that the architect inspected and approved the work associated with the invoices.

### Recommendation

**The Town, in the future, should document all changes to written agreements in writing signed by all parties to the contract. In addition, the Town Commission should approve, of record, any changes to contracts that were originally Commission-approved. Also, invoices from construction contractors should be processed in the proper manner to ensure adequate review by architects and withholding of required retainage.**

### Town Response

*Management concurs with the findings and recommendation of the Auditor General. The Purchasing Policies and Procedures will have to be changed to reflect this recommendation.*

## ***FINDING No. 35: Investment Advisory Services***

The Town utilized an investment advisor for the Town's Police Officers' Pension Plan and the Town's Firefighters' Pension Plan. The agreement with the investment advisor regarding the Firefighters' Pension Plan specifies that the investment advisor is to be paid quarterly at the rate of .50 percent of the annual rate of the total market value of the pension plan, but was silent regarding the Police Officers' Pension Plan. As discussed in Finding No. 29, the Town did not, of record, enter into an agreement with the investment advisor regarding the Police Officers' Pension Plan. The investment provider submitted monthly investment activity statements to the Town indicating that services were provided relating to both the Firefighters' and Police Officers' pension plans. However, neither the monthly investment statements nor the Town's accounting records disclosed evidence of fees having been paid to the investment advisor. Consequently, we were unable to determine how much was paid to the investment advisor during the audit period and, as such, whether fees were paid in accordance with the terms of the agreement.

### **Recommendation**

**The Town should ensure that the investment advisor is paid the appropriate amount of fees for services rendered.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. However, the Police and Fire Pensions are separate entities from the Town. They have their own separate Board of Directors that handle the operations of the Pension Plans including the hiring of an investment advisor and the payment of all pension plan expenses. The Town does not have any authority over these decisions. Therefore, the appropriate payment of the investment advisor is the responsibility of each pension's Board of Directors; it is not the responsibility of the Town. The Town will make efforts to cooperate more closely with these entities in the future as the financial burden is ultimately the Town's.*

### **Travel Expenses**

Section 112.061, Florida Statutes, governs per diem and travel expenses of public agencies, including municipalities, except that provisions of any special or local law, present or future, shall prevail over any conflicting provisions in this Section, but only to the extent of the conflict. Among the requirements of Section 112.061, Florida Statutes, are provisions establishing uniform rates (including the amounts of reimbursement that travelers may claim) and specific documentation requirements for the payment of reimbursement of travel expenses incurred by public officers, employees, and authorized persons in connection with official agency business.

Between October 1, 2000, and January 31, 2002, the Town incurred expenditures of \$22,095 for travel-related expenses of Town officials and employees. Our examination of travel-related expenditures disclosed several instances in which travel expenditures were inadequately supported or not in accordance with Section 112.061, Florida Statutes, as discussed below.

### ***FINDING No. 36: Travel Policies***

On May 1, 1996, the Commission by Resolution No. 1996-19, established an Employee Handbook. The Commission subsequently amended the Employee Handbook by Resolution No. 1996-52 on September 4, 1996. Under the heading "Subsistence Allowance," the Handbook states, "Allowable subsistence expenses will be a reasonable amount and shall not exceed \$35 per day, which involves an overnight stay away from the Town. Travel which does not involve an overnight stay away from the Town may result in reimbursement for subsistence expenses incurred during periods of travel not involving an overnight stay away from the Town."

The Attorney General has ruled (Attorney General Opinion No. 74-18) that a municipality may enact an ordinance providing for travel and subsistence allowances different from those established in Section 112.061, Florida Statutes. However, the Town's Handbook was adopted by resolution rather than by ordinance or charter amendment. Therefore, Town employees and officials traveling on official business were only entitled to the subsistence allowances prescribed in Section 112.061(6)(b), Florida Statutes, which allows \$3, \$6, and \$12 per day for breakfast, lunch, and dinner, respectively, a maximum of \$21 per day.

We also noted that the Employee Handbook is not specific regarding application of certain provisions relating to subsistence reimbursements. The Handbook does not address under what circumstances an employee would be reimbursed for non-overnight subsistence expenditures and whether such reimbursements would be based on actual expenses incurred, although the Town's practice was to pay employees for actual meal costs incurred. Further, it is unclear as to whether the \$35 limitation would apply to subsistence reimbursements for travel that does not involve overnight travel.

### **Recommendation**

**The Town Commission should enact an ordinance to the extent that it desires to adopt travel policies that differ from Section 112.061, Florida Statutes. The Commission should also revise the Handbook as necessary to clarify the issues discussed above.**

### Town Response

*Management concurs with the findings and recommendation of the Auditor General. The above listed issues related to policies on travel shall be addressed by ordinance in order to bring the Town of Lake Park's travel policy in compliance with FSS 112.061 and to allow for an increase to the sustenance amount.*

#### **FINDING No. 37: Travel Allowance**

Section 112.061(7)(f), Florida Statutes, authorizes an agency head to grant monthly travel allowances in fixed amounts for use of privately owned automobiles on official business in lieu of the mileage reimbursement rate provided in Section 112.061(7)(d), Florida Statutes. Allowances granted shall be reasonable, taking into account the customary use of the automobile, the roads customarily traveled, and whether expenses incident to the operation, maintenance, and ownership of the automobile are paid from public funds. The allowance is to be made on the basis of the signed statement of the traveler, filed before the allowance is granted or charged, and at least annually thereafter, showing the places and distances for an average typical month's travel on official business.

On May 17, 1999, the former Town Manager authorized the Community Affairs Director to receive a \$200 per month car allowance. Subsequent to this date, the Community Affairs Director was also assigned a Town vehicle on a full time (24-hour) basis in addition to the car allowance. On November 7, 2001, the Town Commission approved the contract for the current Town Manager. The contract specifies that the Town Manager is to receive \$350 per month to compensate him for use of his personal automobile in execution of his duties.

During the period October 2000 through January 2002, the Community Services Director and Town Manager were paid travel allowances totaling \$3,200 and \$1,050, respectively. Contrary to Section 112.061(7)(f), Florida Statutes, neither the Town Manager nor the Community Affairs Director prepared a signed statement showing a typical month's travel on official business. Consequently, the Town has not, of record, demonstrated the reasonableness of the travel allowances. Further, it was not apparent, of record, why it was necessary to pay a monthly travel allowance, and assign a Town vehicle, to the Community Affairs Director. Because the Town did not maintain a vehicle usage log for the vehicle assigned to the Community Affairs Director showing actual mileage driven and the purpose of the mileage (see Finding No. 42), we were unable to determine the extent of his usage of the vehicle. Subsequent to audit inquiry, Town personnel indicated that the Community Affairs Director is no longer assigned a Town vehicle, although he still receives the monthly travel allowance.

## **Recommendation**

**The Town, for monthly travel allowances, should obtain a signed statement from the traveler showing the places and distances for a typical month's travel on official business as required by Section 112.061(7)(f), Florida Statutes.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The above listed issues related to policies on travel shall be addressed by ordinance in order to bring the Town of Lake Park's travel policy in compliance with FSS 112.061 and to allow for an increase to the sustenance amount.*

## **FINDING No. 38: Travel Reimbursements**

Pursuant to Section 112.061(3)(b), Florida Statutes, Town officials/employees travel expenses are limited to those expenses necessarily incurred by them in the performance of an authorized public and Town purpose, and must be within the limitations prescribed by that Section. Our test of ten travel expenditures totaling \$4,215 for the period October 1, 2000, through January 31, 2002, disclosed that travel expenditures were not always adequately supported or in accordance with Section 112.061, Florida Statutes. Specifically, for seven of the travel expenditures totaling \$3,399, we noted one or more of the following deficiencies:

- Three expenditures totaling \$2,008 for travel to a conference or convention, including \$525 for meal reimbursements, were not supported by copies of conference/convention programs or agendas. In the absence of a conference agenda or program, we could not, in these instances, determine whether meals were included in the registration and, as such, whether the Town had complied with Section 112.061(8)(a), Florida Statutes, which requires that the traveler's per diem be reduced for any meals included in a conference registration fee.
- An employee was reimbursed \$340.25 reportedly for the cost of a plane ticket, as shown on a travel reimbursement form; however, documentation evidencing that the employee actually incurred the cost in relation to authorized Town business was not available for audit. Upon our inquiry, a copy of an itinerary was provided, but the information shown on the itinerary was not consistent with the information shown on the travel reimbursement form and did not substantiate that the cost of the plane ticket was \$340.25.
- Four employees were paid a total of \$502.19 in excess of the amounts allowable for meal allowances as prescribed in Section 112.061(6), Florida Statutes. These instances resulted primarily from the inappropriate Town Handbook provisions as discussed in Finding No. 36.

- In four instances, travel expenditure reimbursement requests totaling \$2,271.58 lacked signatures by either the traveler or the traveler’s supervisor. To properly demonstrate compliance with Section 112.061, Florida Statutes, and to establish individual accountability for such compliance, each traveler, and the traveler’s supervisor, should be required to sign travel reimbursement requests attesting that the travel expenses were actually incurred.

Contrary to good business practice, the Town does not have a centralized procedure for reviewing travel expenditures to determine whether they are necessary and proper and complied with Town policies. Currently, travel expenditures are approved by individual department heads without being reviewed by the finance department prior to payment. The lack of a centralized travel expenditure review function increases the risk of unauthorized travel expenditures.

### **Recommendation**

**The Town, in the future, should require all Town employees to provide adequate supporting documentation, including conference/convention agendas and airline tickets, for any travel expense claims. In addition, the Town’s finance department personnel should review all travel-related expenditures for compliance with Section 112.061, Florida Statutes, and applicable Town policies prior to making payment.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The above listed issues related to policies on travel shall be addressed by ordinance in order to bring the Town of Lake Park’s travel policy in compliance with FSS 112.061 and to allow for an increase to the sustenance amount.*

### **FINDING No. 39: Taxable Meal Allowance**

Internal Revenue Code Section 162(a)(2) provides that there shall be allowed as a deduction all the necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including travel expenses while “away from home.” The United States Supreme Court has interpreted the “away from home” requirement as requiring that the taxpayer be away from home overnight or at least long enough to require rest or sleep. Class C travel, as defined in Section 112.061(2), Florida Statutes, does not involve travel away from home overnight and, therefore, Class C meal allowances are not considered to be deductible traveling expenses. United States Treasury Regulation Section 1.62-2 provides that reimbursements for nondeductible traveling expenses must be reported as wages or other compensation on the employee’s Form W-2 and are subject to withholding and payment of employment taxes.

Our test of travel expenditures during the period of October 1, 2000, to January 31, 2002, disclosed that nondeductible Class C meal allowances for one employee totaling \$68.19 were not reported as wages or other compensation and were not subjected to withholding for payment of Federal income tax and employment taxes. It was not practical on postaudit to determine the amount of Class C payments processed by the Town for travelers other than those employees included in our test during this period.

### **Recommendation**

**The Town should begin reporting Class C meal allowances to the Internal Revenue Service. In addition, the Town should determine the extent to which Class C meal allowances paid to employees were not reported as wages or other compensation and contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported amounts.**

### **Town Response**

*Management concurs with the findings and recommendation of the Auditor General. The above listed issues related to policies on travel shall be addressed by ordinance in order to bring the Town of Lake Park's travel policy in compliance with FSS 112.061 and to allow for an increase to the sustenance amount.*

### **Communications Expenses**

#### ***FINDING No. 40: Telecommunication Taxes***

Customers of vendors that provide telephone services are normally subject to specified Federal, State, and local sales and excise taxes. However, governmental entities are exempt from certain Federal, State, and local taxes. Pursuant to Internal Revenue Code Section 4253(i), the Town is exempt from Federal taxes on telephone services. Similarly, the Town is exempt from State sales taxes on telephone bills pursuant to Section 212.08(6), Florida Statutes. In addition, the Town is exempt from the public services taxes imposed by municipalities pursuant to Section 166.231(5), Florida Statutes. During the period of October 2000 through January 2002, the Town paid \$6,243 in Federal, State, and local telecommunication taxes from which it was exempt.

### **Recommendation**

**The Town should notify all of its telecommunication vendors of the Town's exempt status to ensure that no future taxes of this nature are billed to the Town, and attempt to obtain a refund for exempt taxes previously paid.**

### Town Response

*Management concurs with the finding and recommendation of the Auditor General. The Finance Department has notified all telecommunication vendors that we are exempt from the taxes and the taxes have been removed from our monthly billing.*

### **FINDING No. 41: Telecommunication Charges**

During the audit period, the Town incurred approximately \$3,200 in long distance charges. The Town did not, of record, make an independent review of telephone billings to determine that calls were made for an authorized public purpose. Our review disclosed that the Town incurred several charges totaling \$1,706 that appeared to be avoidable as follows:

- \$915 of late charges and interest on unpaid balances due to untimely payment of telephone bills. During the audit period, late charges were incurred for all but one month.
- \$481 for directory assistance calls. The Town may have been able to avoid most of these charges by using phone books or free Internet directory information sites instead of directory assistance. Although there may be occasional instances when using directory assistance is necessary, the amount of such charges incurred by the Town indicates an unusually high number of instances where directory assistance was used.
- \$156 for using call-return, a feature that allows the user to return a telephone call without having to manually dial the telephone number. This feature is merely a convenience, and does not appear to be a necessity.
- \$122 for making long distance calls from lines without designated long distance carriers. These charges were incurred because the Town had not, for some telephone lines, established a designated long distance carrier.
- \$32 for calling 900 numbers. These calls, some of which were related to lottery hotline telephone numbers (a telephone number that a caller can use to find out winning lottery numbers), appeared to be of a personal nature.

In the absence of adequate controls over telephone usage, the Town could not be assured that all telephone calls served a public purpose, and that unnecessary telephone charges were not incurred.

### Recommendation

**The Town should implement a procedure whereby an individual, other than the Town official or employee placing the call, reviews telephone billings to ensure that all calls made serve a public purpose. The Town should also promptly pay all telecommunications bills to avoid late charges and interest**

charges on unpaid balances, ensure that directory assistance calls are limited, prohibit the use of call-return features and 900 numbers, and ensure that all lines either have designated long distance carriers or have long distance call block.

### Town Response

*Management concurs with the findings and recommendations of the Auditor General. The Finance Department will draft a procedure for the review of monthly telephone bills. Timely payment of these bills has already been addresses with the appropriate staff.*

### Vehicle Usage

#### **FINDING No. 42: Vehicle Utilization Records**

The Employee Handbook provides that Town vehicles may be used for transportation to and from an employee's residence when assigned on a full-time (24-hour) basis. During the audit period, the Town provided vehicles on a full-time (24-hour) basis to the Assistant Town Manager, the Fire Chief, and the Community Affairs Director. Our review of the assignment of Town vehicles and of records maintained to document their usage disclosed the following:

- Town employees assigned vehicles on a full-time basis were not required to maintain mileage logs. Absent this information, the Town could not clearly demonstrate that vehicles assigned on a 24-hour basis were used primarily for a public purpose and used only incidentally for the personal benefit of the employee assigned the vehicle.
- United States Treasury Regulation 1.61-21(a)(3) provides that an employee's gross income includes the fair market value of any fringe benefits not specifically excluded from gross income by another provision of the Internal Revenue Code. The personal use of an employer-provided vehicle is a fringe benefit that must be included in the employee's gross income as compensation for services, unless otherwise excluded. Our review disclosed that the value of the personal use of these vehicles was not included in the employees' gross compensation reported to the Internal Revenue Service.

### Recommendation

**The Town should maintain vehicle usage logs documenting personal use mileage, and begin reporting the value of such usage to the Internal Revenue Service. In addition, the Town should contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported value of personal use of vehicles assigned on a 24-hour basis.**

### Town Response

Management concurs with the findings and recommendation of the Auditor General. A policy regarding the use of town vehicles, assigned and unassigned is presently being addressed and should be in place by November 30, 2002. There are presently two (2) persons employed by the Town of Lake Park that have an assigned vehicle; the Director of Public Works and the Assistant to the Town Manager. All other vehicles owned by the town are utilized during working hours only or for specific Town business (e.g. delivery of agenda packets). The Town Manager and the Community Affairs Director receive an allowance for the use of their privately owned vehicles for town business.

### Other Matters

#### **FINDING No. 43: Conflict of Interest**

Section 2-110.1 of the Town's Code of Ordinances prohibits any employee engaged in the purchase or contract of any supplies, materials, equipment, or services provided to the Town from having any personal beneficial interest, directly or indirectly. Contrary to these provisions, the Town, during the 1999-2000 and 2000-2001 fiscal years, paid a total of \$621 to the senior registered engineer's wife, as an independent contractor. The senior engineer approved the field purchase order authorizing payment to his wife for clerical duties. Additionally, on December 24, 1997, the Town paid \$425 to a firm owned by the senior registered engineer for engineering services while he was still employed by the Town.

### Recommendation

**The Town should implement procedures to ensure compliance with the conflict of interest provisions of the Code of Ordinances. To facilitate such compliance, the Town should clearly communicate to all employees the requirements of Section 2-110.1 of the Town's Code of Ordinances.**

### Town Response

*A procedure regarding Conflict of Interest shall be implemented in compliance with Section 2-110.1 of the Town's Code of Ordinances and will be in place by November 30, 2002*

#### **FINDING No. 44: Sunshine Law**

Section 286.011(1), Florida Statutes (commonly referred to as the Sunshine Law), states that all meetings of any board or commission of any State agency or authority or of any agency or authority of any county, municipal corporation, or political subdivision, except as otherwise provided by the Constitution of the State of Florida, at which official acts are to be taken are declared to be public

meetings opened to the public at all times. Additionally, Section 286.011(2), Florida Statutes, states that minutes of a meeting of any such board or commission shall be promptly recorded and such records shall be open to public inspection.

The Town Commission hired a consultant to conduct a search for a new Town Manager. According to the Commission minutes of July 25, 2001, the consultant mentioned three areas in which the prospects for the Town Manager should be highlighted, which included "a social situation: perhaps a cocktail party where they could interact with Commission, staff and citizenry; a one-on-one meeting with each Commissioner; and, finally, a public interview with the entire Commission." The minutes for the Commission's October 13, 2001, meeting indicate that the Commission conducted interviews with Town Manager candidates on the morning of October 13, 2001. According to the Town Manager, these interviews were not conducted by the Commission collectively and that each candidate was interviewed individually by each Commissioner in separate rooms. On October 13, 2001, subsequent to the morning interviews, four Commission members, along with selected employees and three candidates for the position of Town Manager, attended a reception at the Evergreen House. At its October 17, 2001, meeting, the Commission directed the consultant and its legal counsel to negotiate a contract with the selected candidate (the current Town Manager).

The Attorney General, in the publication GOVERNMENT-IN-THE-SUNSHINE MANUAL, states "members of a public board or commission are not prohibited under the Sunshine Law from meeting together socially, provided that matters which may come before the board or commission are not discussed at such gatherings." As described in the minutes for the Commission's July 25, 2001, meeting, the purpose of the reception was to obtain information as to the qualifications of the candidates. As such, the possibility existed that two or more commissioners may have had discussions at the reception, which would appear to be a violation of the "openness" requirement of the Sunshine Law. For example, the Attorney General, in Attorney General Opinion No. 71-159, indicated that the use of a public dining room for a meeting might have a "chilling" effect on the public's ability to attend the meeting, and that if arrangements were not made to make sure the proceedings were audible to the members of the public in attendance, so that the discussions among members and staff were audible only to a select few who are seated at the table, this might violate the "openness" requirement of the Sunshine Law. The Attorney General further indicated that a municipality might be well advised to avoid even the appearance of impropriety by expending all efforts to conform to the spirit as well as the letter of the Sunshine Law.

In addition, while reviewing Commission meeting minutes, we noted several minutes that were not timely approved by the Commission. Section 286.011(2), Florida Statutes, states that minutes of a meeting of any such board or

commission shall be promptly recorded and such records shall be open to public inspection. While the definition of “promptly” is not specified in the statute, for our purposes, we considered approval of transcribed minutes within one month of the meeting to be prompt. Our review disclosed that between October 1, 2000, and January 31, 2002, 34 out of 71 Commission meetings were not timely approved by the Commission. The range of untimely approvals ranged from 34 to 237 days after the meeting date. Further, the Commission did not approve the minutes of the November 1, 2000, regular meeting and the November 1, 2000, workshop.

### **Recommendation**

**To avoid potential violations of the Sunshine Law, future events such as the reception should be avoided, or structured in a manner to ensure compliance with the Sunshine Law. All meeting minutes should be promptly transcribed and presented to the Commission for approval.**

### **Town Response**

*Management partially concurs with the findings and recommendations of the Auditor General’s Office. Management believes that sufficient notification was given to alleviate any concern that public business was being conducted in a cloaked fashion. However; given the stringent nature of the State’s Sunshine Law, management will advise the Commission when they may be technically within the bounds of the law but subject to criticism for any appearance of impropriety.*

## *APPENDICES*

The following Appendices are attached to and form an integral part of this report:

*Appendix - A Background.*

*Appendix - B Unfavorably Rated Financial Indicators.*



*APPENDIX - A  
BACKGROUND  
OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA  
FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,  
AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO*

*Authority*

The Town was originally established as Kelsey Town by Chapter 9794, Laws of Florida (1923). Chapter 19931, Laws of Florida (1939), changed the name to the Town of Lake Park. Chapter 61-2375, Laws of Florida, reestablished the Town of Lake Park, Florida, in 1961. The Town is located in Palm Beach County, Florida. As provided in Article VIII, Section 2.(b) of the State Constitution, and Section 166.021(1), Florida Statutes, the Town is empowered to conduct municipal government, perform municipal functions, and render municipal services.

In 1973 the Florida Legislature enacted the “Municipal Home Rule Powers Act” (Chapter 73-129, Laws of Florida). This Act established Section 166.021, Florida Statutes, which extended to municipalities the exercise of powers for municipal governmental, corporate, or proprietary purposes not expressly prohibited by the Constitution of the State of Florida, general or special law, or county charter, and removed any limitations, judicially imposed or otherwise, on the exercise of home rule powers other than those expressly prohibited. The “Municipal Home Rule Powers Act” also provided that all then existing special acts pertaining exclusively to the power or jurisdiction of a particular municipality, except as otherwise provided in Section 166.021(4), Florida Statutes, were to become ordinances of the municipality on the effective date of the Act (October 1, 1973). There have been no special acts of the Florida Legislature pertaining to the Town since Chapter 61-2375. Procedures for amending the Town Charter and establishing new ordinances are set forth in Sections 166.031 and 166.041, Florida Statutes, respectively.

The Town Charter, as amended by various ordinances, establishes the general powers and duties of the Town Commission, including the Mayor; the duties of the Town Clerk; administrative requirements, procedures, and guidelines for various Town activities and functions; and provisions for the administration of Town Commission meetings.

*Organizational Structure*

As provided by Article VIII, Section 2.(b) of the State Constitution, the Town is governed by an elective legislative body. Section 1, Article III, Chapter 61-2375, Laws of Florida (1961), as amended by the Town, stipulates that the Town operates under the “Commissioner-Manager Plan” form of government, which provides that the Town Commission consists of five members, one of which will act as the Mayor, who shall serve for terms of three years. The Town Commission appoints a Town Manager, who is the administrative head of the municipal government under the laws of the Town as enacted by the Town Commission.

The Town Commission serving during the period October 1, 2000, through January 31, 2002, were:

*Paul Castro, Mayor from June 13, 2001; Vice Mayor until March 13, 2001*

*William H. Wagner, Mayor until April 9, 2001*

*Chuck Balius, Vice Mayor from June 13, 2001*

*Paul Garretson*

*Jeanine Longtin, from March 14, 2001*

*Mark E. Mullinix, until June 12, 2001*

*Bill Otterson, from March 14, 2001*

*Ken Roetz, until March 13, 2001*

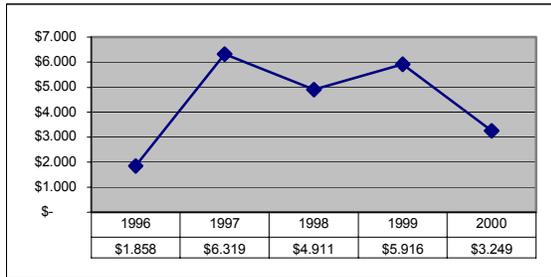
*Note: The position of Mayor was vacant from April 9, 2001, when William H. Wagner resigned, until Paul Castro took office on June 13, 2001.*

### *Related Audits*

Our audit did not extend to an examination of the Town's financial statements or to the Town's administration of Federal awards programs. The Town's financial statements and Federal awards administered by the Town for the fiscal year ended September 30, 2000, were audited by a certified public accounting firm, and the audit report is on file as a public record with the Town.

**APPENDIX - B**  
**UNFAVORABLY RATED FINANCIAL INDICATORS**  
**OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA**  
**FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,**  
**AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO**

**(1) Unreserved Fund Balance + Unreserved Retained Earnings (In Millions)**

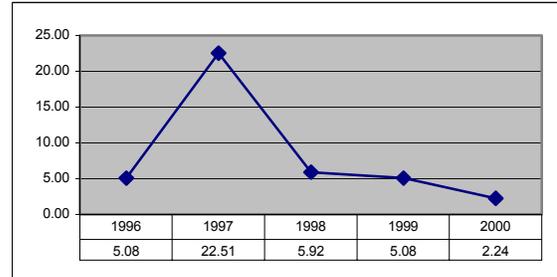


**Analysis**

- ❖ Although the Town's five-year trend is erratic and inconclusive, the Town's total unreserved fund balance and retained earnings (adjusted for inflation) has decreased by \$3,069,832 (49 percent) from the 1996-97 to the 1999-2000 fiscal year. The decrease occurred in both fund balances and retained earnings.
- ❖ The decrease in unreserved fund balances is likely due to the Town reporting expenditures in excess of revenues for the past four fiscal years.
- ❖ The decrease in unreserved retained earnings is likely partially due to the Town transferring funds from the proprietary funds to the governmental funds. Proprietary funds operating transfers out totaled \$150,000, \$200,000, \$250,000, and \$250,000, for the 1996-97 through the 1999-2000 fiscal years, respectively. As reported on the Town's Statements of Cash Flows, the Town reported a net decrease in cash and cash equivalents for the three out of the past four fiscal years.

**Warning Trend.** Low or declining results may indicate that the entity could have difficulty maintaining a stable tax and revenue structure or adequate level of services. Deficits may indicate a financial emergency.

**(2) Cash & Investments/Current Liabilities - Governmental Funds**



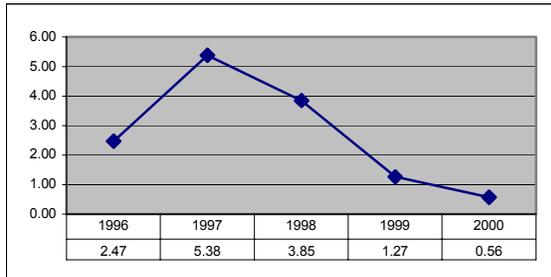
**Analysis**

- ❖ Although the Town's five-year trend is erratic and inconclusive, the Town's ratio has decreased by 2.84 (56 percent) from the 1995-96 to the 1999-2000 fiscal year. The decline was due to decreasing cash and investments balances and increasing current liabilities.
- ❖ The Town's current liabilities have increased by \$1,368,929 (520 percent) since the 1995-96 fiscal year.
- ❖ The Town's 1999-2000 fiscal year ratio was 2.24 as compared to an average ratio of 9.71 for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** Low or decreasing ratios may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

**APPENDIX - B (CONTINUED)**  
**UNFAVORABLY RATED FINANCIAL INDICATORS**  
**OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA**  
**FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,**  
**AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO**

**(3) Cash & Investments/Current Liabilities - Proprietary Funds**

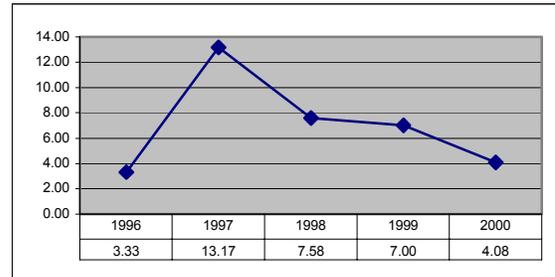


**Analysis**

- ❖ The Town's ratio has decreased by 1.91 (77 percent) from the 1995-96 to the 1999-2000 fiscal year. The decline was due to decreasing cash and investments balances and increasing current liabilities.
- ❖ The Town's current liabilities have increased by \$721,501 (260 percent) since the 1995-96 fiscal year.
- ❖ The Town's 1999-2000 fiscal year ratio was .56 as compared to an average ratio of 72.21 for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** Low or decreasing ratios may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

**(4) Cash & Investments/(Total Expenditures/12) - Governmental Funds**



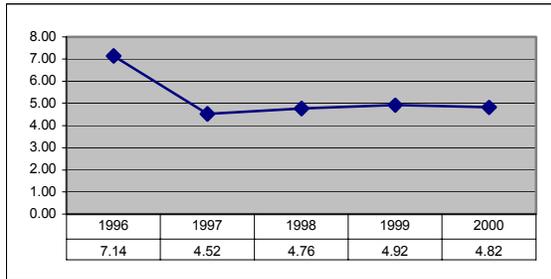
**Analysis**

- ❖ Although the Town's ratio slightly increased from the 1995-96 to the 1999-2000 fiscal year, the Town's ratios decreased by 9.09 (69 percent) from the 1996-97 to the 1999-2000 fiscal year. During this period, cash and investments decreased by 38 percent while expenditures increased by 98 percent.
- ❖ The Town's 1999-2000 fiscal year ratio was 4.08 as compared to an average ratio of 9.36 for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** Low or decreasing ratios may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

**APPENDIX - B (CONTINUED)**  
**UNFAVORABLY RATED FINANCIAL INDICATORS**  
**OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA**  
**FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,**  
**AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO**

**(5) Cash & Investments/(Total Operating Expenses/12) - Proprietary Funds**

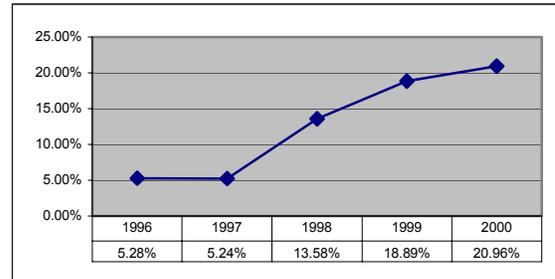


**Analysis**

- ❖ The Town's ratios for proprietary funds decreased by 2.32 (32 percent) from the 1995-96 to the 1999-2000 fiscal year. During this period, cash and investments decreased by 18 percent while operating expenses increased by 22 percent.
- ❖ The Town's 1999-2000 fiscal year ratio was 4.82 as compared to an average ratio of 193.23 for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** Low or decreasing ratios may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

**(6) Current Liabilities/Total Revenues - Governmental Funds**



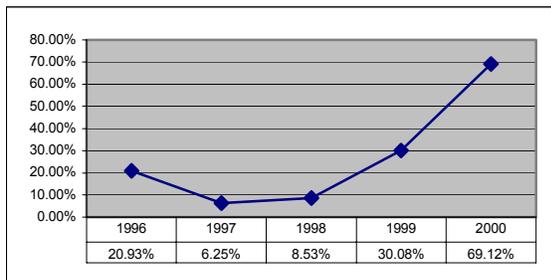
**Analysis**

- ❖ The Town's percentage increased by 297 percent from the 1995-96 to the 1999-2000 fiscal year.
- ❖ Since the 1995-96 fiscal year, the Town's current liabilities have increased by 520 percent while revenues have only increased by 56 percent.
- ❖ The Town's 1999-2000 fiscal year percentage was 20.96 compared to an average percentage of 13.19 for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** High or increasing results may indicate liquidity problems, deficit spending, or both.

**APPENDIX - B (CONTINUED)**  
**UNFAVORABLY RATED FINANCIAL INDICATORS**  
**OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA**  
**FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,**  
**AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO**

**(7) Current Liabilities/Total Operating Revenues - Proprietary Funds**

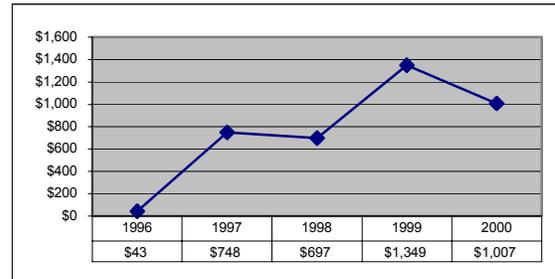


**Analysis**

- ❖ The Town's percentage increased by 230 percent from the 1995-96 to the 1999-2000 fiscal year.
- ❖ Since the 1995-96 fiscal year, the Town's current liabilities have increased by 260 percent while revenues have only increased by 9 percent.
- ❖ The Town's 1999-2000 fiscal year percentage was 69.12 compared to an average percentage of 31.02 for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** High or increasing results may indicate liquidity problems, deficit spending, or both.

**(8) Long-Term Debt/Population**



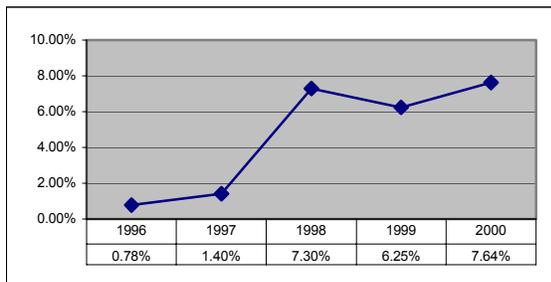
**Analysis**

- ❖ The Town's general long-term debt increased from \$292,845 in the 1995-96 fiscal year to \$9,536,659 in the 1999-2000 fiscal year. The Town issued general obligation bonds of \$4,800,000 on August 7, 1997, and \$5,000,000 on November 17, 1998.
- ❖ The decrease in long-term debt per capita from the 1998-99 to the 1999-2000 fiscal year was primarily due to a change in population. An estimated population of 6,853 was used for the 1998-99 fiscal year, whereas the actual population of 8,721 (based on the United States Census) was used for the 1999-2000 fiscal year.
- ❖ The Town's 1999-2000 fiscal year long-term debt per capita (adjusted for inflation) was \$1,007 as compared to an average of \$234 for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** High or increasing amounts may indicate that the entity has a decreasing level of flexibility in how resources are allocated or decreasing ability to pay its long-term debt.

**APPENDIX - B (CONTINUED)**  
**UNFAVORABLY RATED FINANCIAL INDICATORS**  
**OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA**  
**FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,**  
**AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO**

**(9) Debt Service/Total Expenditures - Governmental Funds**

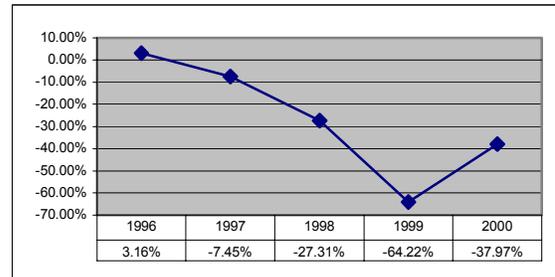


**Analysis**

- ❖ Debt service expenditures increased from \$37,510 in the 1995-96 fiscal year to \$821,576 in the 1999-2000 fiscal year. The increase was due to the issuance of \$9,800,000 in general obligation bonds.
- ❖ Debt service expenditures increased by 2,090 percent while total expenditures increased by 122 percent from the 1995-96 to the 1999-2000 fiscal year.
- ❖ The Town's 1999-2000 fiscal year percentage was 7.64 as compared to an average of 5 percent for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** High or increasing percentages may indicate declining flexibility the entity has to respond to economic changes.

**(10) Excess Revenues Over (Under) Expenditures/Total Revenues - Governmental Funds**



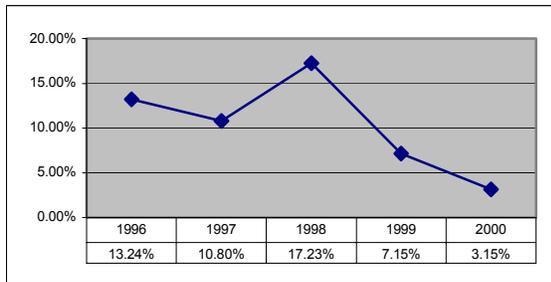
**Analysis**

- ❖ The Town's percentages have decreased by 1,302 percent from the 1995-96 to the 1999-2000 fiscal year, with deficits reported from the 1996-97 through 1999-2000 fiscal years.
- ❖ The Town's 1999-2000 fiscal year percentage was -37.97 as compared to an average of -7.88 percent for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** Decreasing surpluses or increasing deficits may indicate that current revenues are not supporting current expenditures.

**APPENDIX - B (CONTINUED)**  
**UNFAVORABLY RATED FINANCIAL INDICATORS**  
**OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA**  
**FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,**  
**AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO**

**(11) Operating Income/Total Operating Revenues - Proprietary Funds**

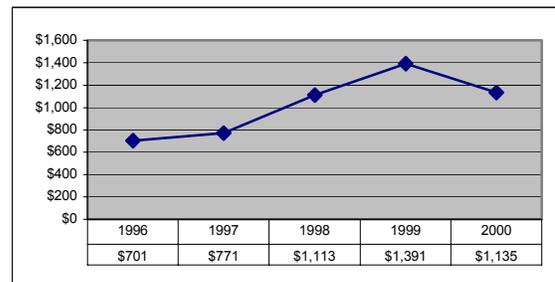


**Analysis**

- ❖ The Town's percentage decreased by 76 percent from the 1995-96 fiscal year to the 1999-2000 fiscal year.
- ❖ The Town's 1999-2000 fiscal year percentage was 3.15 as compared to an average of 13.36 percent for other municipalities with similar fund composition and taxable property values.
- ❖ The Bus Enterprise Fund reported an operating loss of \$2,889 for the 1999-2000 fiscal year, and a deficit retained earnings of \$13,469 as of September 30, 2000, indicating that fees charged for bus services are not sufficient to cover the cost of operating the Town's bus system.

**Warning Trend.** Decreasing income or increasing losses may indicate that current revenues are not supporting current expenses.

**(12) Total Expenditures/Population - Governmental Funds**



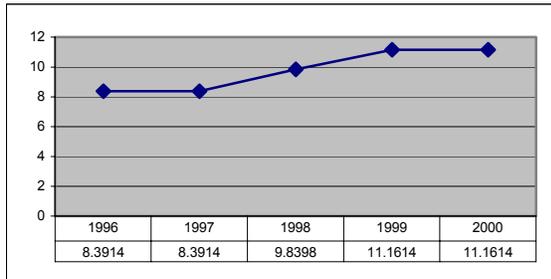
**Analysis**

- ❖ The Town's expenditures per capita increased by 62 percent from the 1995-96 to the 1999-2000 fiscal year.
- ❖ The Town's 1999-2000 fiscal year expenditures per capita (adjusted for inflation) was \$1,135 as compared to an average of \$718 for other municipalities with similar fund composition and taxable property values.

**Warning Trend.** Higher or increasing results may indicate that the cost of providing services is outstripping the entity's ability to pay (i.e., the entity may be unable to maintain services at current levels).

**APPENDIX - B (CONTINUED)**  
**UNFAVORABLY RATED FINANCIAL INDICATORS**  
**OPERATIONAL AUDIT OF THE TOWN OF LAKE PARK, FLORIDA**  
**FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,**  
**AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO**

**(13) Millage Rate**



**Analysis**

- ❖ The Town's millage rate increased from 8.3914 in the 1995-96 fiscal year to 11.1614 in the 1999-2000 fiscal year, an increase of 33 percent. The increase is the result of the assessment of 2.77 mills for the payment of bonds issued in 1997 and 1998.
- ❖ The Town's September 30, 2000, millage rate, exclusive of 2.77 mills representing taxes levied for the payment of bonds, was 8.3914, which is within the limitations established by Section 166.211, Florida Statutes. However, the Town's total millage rate was 11.1614 as compared to an average of 4.6681 for municipalities with similar fund composition and taxable property values.

**Warning Trend.** Millage rates approaching 10 mills may indicate that the entity has a reduced ability to raise additional funds when needed.

# The Town of Lake Park



"Jewel" of the Palm Beaches

October 22, 2002

Mr. Ted Sauerbeck  
Office of the Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

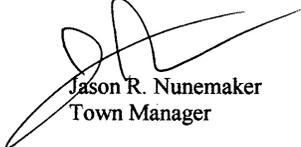
RE: Revised Response

Dear Mr. Sauerbeck:

Attached please find a copy of the Town of Lake Park's revised response to the Preliminary and Tentative Findings of the Auditor General's operational audit. These revisions were made by the Town Manager and Town Finance Director based on conversations with staff at the Auditor General's Office. The Town Manager has the ultimate responsibility for this submittal and I stand by our response 100%. I believe the operational audit serves as a fundamental blueprint for the Town to follow in mapping a course towards fiscal integrity.

I would once more like to thank you and your staff for working with the Town of Lake Park during such a trying period. The professionalism exhibited by your office allowed for a productive atmosphere and minimized what could have been a contentious process

Sincerely,



Jason R. Nunemaker  
Town Manager

C: Mayor & Commissioners  
Town Attorney  
Finance Director

/Attachments

C:\Documents and Settings\bambi\Local Settings\Temporary Internet  
Files\OJ.K2C\AGRenonseFinalSubmittal10-22-02.doc

535 Park Avenue, Lake Park, Florida 33403 • (561) 848-3460 • Fax: (561) 848-2913

Web Site: [www.lakeparkflorida.net](http://www.lakeparkflorida.net)

**FINDING No. 1: Prior Audit Findings**

Management concurs with the findings and recommendation of the Auditor General. Every effort will be made to correct audit findings in a timely manner. The Town's staff has already corrected many prior year findings.

To date, twelve of twenty-three audit findings listed in the Audit Management Letter for the year ended September 30, 2000 have been corrected including some of the most significant issues such as:

- Debt service fund deficit
- Fixed asset inventory
- Expenditures – over- budget
- Sanitation fund financial condition

Nine audit findings are currently being corrected and the remaining two findings are no longer applicable due to the dissolution of the Pension Trust Funds.

**FINDING No. 2: Written Policies and Procedures**

Management concurs with the findings and recommendation of the Auditor General. The development of policies and procedures is a very time consuming process. We recognize their importance but current priorities limit work in this area. All Departments will work on developing appropriate policies and procedures for future adoption by the Town Commission. In an effort to expedite this process staff will coordinate with other municipalities where feasible to adopt their policies as boiler plates to be customized to the Town's needs.

**FINDING No. 3: Separation of Duties**

Management concurs with the findings and recommendation of the Auditor General. The Town has already implemented some separation of duties in the areas of cashiering and payroll. The staff will continue to work on implementing separation of duties where practical.

The Finance Department has already implemented internal controls dealing with separation of duties in the areas of payroll, accounts payable and cashiering.

Cashiering procedures have been separated among three individuals in the Finance Department instead of the previous process that only involved one individual. Daily deposits are verified by a second person and the cash receipts edit is reviewed, corrected if necessary and posted to the General Ledger by the Finance Director.

The Payroll process has also been separated among three individuals in the Finance Department. Before the final paychecks are run, the Finance Director reviews the payroll edit report that shows all changes made to the payroll system since the last payroll run. Once this edit is approved, the final payroll is run and a third person (Assistant to the Finance Director) processes the payroll checks. The payroll checks and check register are then reviewed by the Finance Director before the payroll checks are released.

The Accounts Payable process has also been separated. The Accounts Payable clerk inputs invoices and generates an accounts payable edit report. The Finance Director reviews all data input and the edit report making corrections as needed. Once the review is completed the Finance Director releases the batches to post to the accounting system to be paid.

In the past, only one person handled each entire process. Now, the process is divided among individuals at steps in the process where the adequate separation can disclose possible errors or irregularities.

**FINDING No. 4: Audit Report**

Management concurs with the findings and recommendation of the Auditor General. The Finance Department staff is aware of audit requirements and realizes the importance of timely audits. The lateness of the fiscal year 2000 audit will impact the 2001 audit that is currently taking place and should be completed by the end of October, 2002 with the published report available by late November or early December. We do not expect any delay in the completion of the fiscal year 2002 audit within the statutory timeframe.

**FINDING No. 5: Financial Condition**

Management concurs with the findings and recommendations of the Auditor General. The current Town Management has taken many steps to “turn around” the declining financial trends. The Town Manager, working with the Finance Director, has implemented programs that will lead to a stable financial condition and eventually a more efficient and responsive government. Processes that have already been implemented include:

1. Stop the use of fund balances to balance operating budgets.
2. Sale of surplus property and equipment that the Town no longer has any use for in its operations. This will impact the budget through additional revenue from the sale of surplus property and will lower our annual insurance premiums. Further, properties sold in the Community Redevelopment Area (CRA) will bolster the tax increment fund (TIF).
3. Annual review of fees and charges especially in the proprietary (enterprise) funds. This is evidenced by the increases in fees in the areas of sanitation and marina operations.
4. Investigate the potential for outsourcing/privatization in all functional areas where effectiveness and efficiency may be improved.

Other processes that are being developed that will help bring financial stability to the Town include:

1. The development of a needed investment policy.
2. The establishment of fund balance reserve levels.
3. The development and implementation of a 5 year capital improvement program.
4. The establishment of a monthly review of operating budgets with each department and the Town Manager.
5. The monthly report submitted by the Finance Department will be augmented with copies of the bank reconciliations.

6. Management will recommend to the Town Commission that as part of the current annual auditing practice, a requirement for an operational audit be implemented on a scheduled interval (e.g. every three years).

Finally, the AG's report does not take into account several significant factors that will contribute positively to the Town of Lake Park's financial condition. Three of the most significant factors are:

1. The development of the Congress Avenue Corridor – This currently encompasses an approved Lowe's Home Improvement Center, conceptual consideration of more than one million square feet of office/warehouse, and the current construction of the Westlake Apartment Complex. These projects will add approximately \$85M to the Town's tax roles, over a 25% increase, and will assist in achieving a more favorable financial position. These developments will also have additional positive impacts such as job creation and increased patronage for Lake Park businesses.
2. The Town Marina revitalization will add to the Town's revenue base.
3. The Town is currently investigating various levels of privatization/outsourcing as a means of conducting more efficient and effective operations.

**FINDING No. 6: Budget Preparation**

Management concurs with the findings and recommendations of the Auditor General. The Finance Department implemented the recommendations in the preparation of the annual budget for fiscal year 2003. All funds were budgeted and beginning fund equities were accounted for in the process.

**FINDING No. 7: Budget Adoption**

Management concurs with the findings and recommendation of the Auditor General. The Town has initiated the use of an Ordinance for the adoption of the annual budget for fiscal year 2003 and will use an ordinance to amend the budget if necessary in the future. The Finance Director will be recommending a change to the Town's Charter to include a section for the adoption and amending of the budget.

**FINDING No. 8: Budget – Over - Expenditures**

Management concurs with the findings and recommendation of the Auditor General. The Town Manager's monthly departmental budget review should prevent the problem of over expenditures. This issue was addressed with the FY 02 budget by a budget amendment.

**FINDING No. 9: Bank Reconciliations**

Management concurs with the findings and recommendations of the Auditor General. Of the five bank accounts that were used from September 30, 2000 to present, the staff of the Finance Department has completed all bank reconciliations to date including the Wachovia Bank account. The use of this Wachovia Bank account was discontinued in May, 2002.

The current bank accounts in use since May, 2002 at Fidelity Federal (3 accounts) are all reconciled and up to date. As mentioned previously the Finance Department will be including copies of the bank reconciliations in future monthly reports to the Town Commission.

**FINDING No. 10: Stale-Dated Checks**

Management concurs with the findings and recommendation of the Auditor General. The Town has already identified several individuals and has disbursed the monies due them, thus removing them from the Stale-Dated check list. We have also contacted the State of Florida to obtain the report that needs to be completed and filed. This report will be sent to the state on the next reporting date of April 30, 2003.

**FINDING No. 11: Check Signing**

Management concurs with the findings and recommendation of the Auditor General. The Finance Director agrees that the number of required signatures should be limited. He recommends one signature (machine signed) for checks up to \$ 10,000 and one additional signature for checks over \$ 10,000 (manually signed). Signature stamps would be eliminated.

The reasons for this recommendation are as follows:

1. The State of Florida Comptroller issues a machine signed check with one signature.
2. Palm Beach County issues a machine signed check with two signatures.
3. The use of machine signed checks and the elimination of signature stamps provides better protection because one cannot get a machine signed check without knowing how to run the accounting system.
4. Since the accounting system uses blank paper stock there will not be blank checks to worry about. Our payroll checks currently use blank paper stock with machine signed checks. Internal controls are in place to prevent any unauthorized use.
5. The requirement of the second signature manually signed would provide some safety with only minor inconveniences of tracking down a second signer.

This is a change that will be discussed with the Town Commission in the future.

**FINDING No. 12: Electronic Transfer of Funds**

Management concurs with the findings and recommendation of the Auditor General. The Finance Department is currently developing an RFP for banking services. When this is completed and a bank is chosen, a written agreement detailing responsibilities of both parties will be signed. This agreement will cover bank transfers. Until the formal agreement is drafted, the only person authorized to transfer money out of the Fidelity Federal Bank account is the Finance Director, who is a signer on the account.

**FINDING No. 13: Investment Earnings**

Management concurs with the findings and recommendation of the Auditor General. The Finance Department is currently developing an Investment Policy for adoption by the Town Commission. This policy will assist the Town in securing an increased rate of return on the investment of idle funds while complying with Section 218.415 of the Florida Statutes.

**FINDING No. 14: Tangible Personal Property Records**

Management partially concurs with the findings and recommendation of the Auditor General. During the summer of 2002, the current staff identified and tagged all of the fixed assets purchased during the 3 prior fiscal years and asset information records were added to the Fixed Asset System. Forms are being developed for tracking movement of assets between departments and asset custody will be monitored.

Regarding the missing equipment, further investigation has revealed that the Toshiba copier was upgraded with a new one now located in the Community Development Department. The HP external drive was located at Fire Station #2. Additional items appeared to have been auctioned and staff will investigate these items further.

**FINDING No. 15: Tangible Personal Property Inventory**

Management concurs with the findings and recommendation of the Auditor General. During the summer of 2002, the Finance Department staff conducted a complete physical inventory of fixed assets. The Finance Department will continue to perform annual inventories as required by law.

**FINDING No. 16: 1997 and 1998 Bond Issues**

Management partially concurs with the findings and recommendations of the Auditor General. The current Town Management is closely monitoring the Marina Project to ensure timely completion and reimbursement of grant financing.

Regarding the timeframe for completion, the AG reported that the Town Hall and the Town Marina were not completed within (3) three years. The Town Hall, as a significant historical structure, entailed many details and considerations that would not have been present in a new construction. If you reference this project against other historical restorations of similar nature and scope you would find similar issues with those projects (i.e. cost overruns and extended completion dates).

The timing of the Town Marina completion was affected by both technical and political factors. The permitting process for such an undertaking is time consuming. There were also legal concerns that had to be fleshed out between the Town and Riviera Beach property owners. The assembly of land through eminent domain that will constitute the upland parking was also time-consuming. Political considerations came into play over the nature and scope of the project causing further delay. Again, both of these projects are dynamic endeavors not given to definitive timelines.

All future projects, regardless of funding, will have a cost analysis and will not begin until a budget has been approved by the Town Commission.

**FINDING No. 17: Property Renovation Loan**

Management partially concurs with the findings and recommendations of the Auditor General. The current Town Manager and Finance Director recognize the importance of the competitive bid process in securing the most favorable financing for the Town. Competitive bids will be secured on all future financing.

It should be noted that there is strong interest in the private acquisition of the Post Office building and that the Town has disposed of other properties that would allow for a deficit in the sale. Management therefore maintains that the Town is not in jeopardy regarding the scheduled balloon payment.

**FINDING No. 18: Accountability of Restricted Revenues**

Management concurs with the findings and recommendations of the Auditor General.

**FINDING No. 19: Local Option Fuel Tax**

Management concurs with the findings and recommendation of the Auditor General. The restrictions placed on the New Local Option Fuel Tax will require the Town to amend the Comprehensive Plan to include allowable projects. The balance of funds on hand at the end of fiscal year 2002 will be determined and transferred to the newly established Special Revenue Fund.

**FINDING No. 20: Grant Reimbursements**

Management concurs with the findings and recommendation of the Auditor General. Departments responsible for completion of grant reimbursement requests have been instructed to prepare and submit such request in a timely manner. These requests will also be monitored by the Finance Department.

**FINDING No. 21: Responsibility for Collections**

Management concurs with the findings and recommendation of the Auditor General as it pertains to the transfer of collections. Collections transferred between departments and the cashier often involves cash and there needs to be a transmittal document and procedure to account for the collection transfer. A procedure and forms will be developed by the Finance Department.

It is the opinion of the Finance Director that the use of a mail log for collections would be too time consuming to incorporate into the daily routine. Staff will explore other means to document mail collections.

**FINDING No. 22: Sanitation Fee Collections**

Management concurs with the findings and recommendation of the Auditor General. The Town has proceeded to increase its efforts in the collection of sanitation receivables. On September 10, 2002, the Public Works Director (in charge of sanitation) and the Assistant to the Finance Director (in charge of billing sanitation) both attended a seminar dealing with collecting delinquent accounts. The Public Works Director working with the Assistant to the Finance Director have implemented new procedures in the collection of past due accounts. Delinquent accounts are now being sent past due notice letters, payment arrangements are being made, and in cases where there is no response, the Town Attorney will be filing liens or taking appropriate legal action.

**FINDING No. 23: Hiring Practices**

Management concurs with the findings and recommendation of the Auditor General. All employees hired into positions requiring specific training and/or a college degree have been notified to contact the university or agency where their degree or certification was earned to request that transcripts be sent directly to the office of Administrative Services. Upon receipt, the transcripts will be placed directly in the employee's personnel file.

All persons being hired into positions requiring specific certifications or degrees will not begin his or her employment with the Town of Lake Park until the training or college transcript has been received by the office of Administrative Services.

The employee that was hired to fill the position of Assistant to the Finance Director is set to begin classes at Palm Beach Community College in pursuit of the required Bachelor's Degree in Accounting. An Education Agreement between the employee and the Town has been signed and will be placed in the employee's personnel file.

Job Classification Descriptions requiring a formal degree may be adjusted to allow for consideration of prior work experience or a combination of work experience and training in lieu of a formal degree.

All persons applying for a position with the Town of Lake Park are required to complete an "Application for Employment" form. The elected officials of the Town of Lake Park appointed an Interim Town Manager on October 3, 2001 without first requiring a completed employment application. An employment application has since been completed and placed in the employee's personnel file.

**FINDING No. 24: Compensatory Leave**

Management concurs with the findings and recommendation of the Auditor General. The policy regarding Executive Leave will be removed from the Town of Lake Park Policy Handbook through a Resolution of the Mayor and Commission at the October 16, 2002 regular Commission Meeting.

Compensatory Time is addressed in the Town of Lake Park's Policy Handbook. All Compensatory Time is tracked by each department. An "overtime slip" is completed by the employee. The employee elects to be paid in cash or compensatory time with the approval of his/her department head. No employee is permitted to accrue more than 24 hours of compensatory time unless accrual limits are specifically addressed within a union contract. All compensatory time will be utilized by the employee before the employee may make use of annual leave. The completed slip is turned into the Finance Department along with the department payroll sheet. The original copy of the overtime slip is kept by the Finance Department as directed by the State of Florida Division of Library and Information Services, Bureau of Archives and Records Management, General Records Schedule for State and Local Government Agencies (Schedule GS1).

**FINDING No. 25: Insurance Overpayments**

Management concurs with the findings and recommendation of the Auditor General. All employees who voluntarily terminate their employment or are terminated from their positions with the Town are removed from coverage on the last day of the month of termination. A review of the billing statements is completed monthly upon receipt to ensure accuracy. Benefits are offered to departing employees through COBRA.

**FINDING No. 26: Credit Cards**

Management concurs with the findings and recommendation of the Auditor General. The Finance Department will draft written policies and procedures governing the use of the Town credit cards.

**FINDING No. 27: Disbursement Processing**

Management concurs with the findings and recommendation of the Auditor General. The staff of the Finance Department has been notified of their responsibility in the audit of invoices for payment. Currently, the Finance Director reviews all payments and backup materials for conformity to purchasing policy and procedures before he signs the check for payment.

**FINDING No. 28: Inadequately Documented / Unauthorized Expenditures**

Management has noted the opinion of the Auditor General and will apply it when applicable. Policy is being formulated.

**FINDING No. 29: Written Agreements**

Management concurs with the findings and recommendation of the Auditor General. The staff of the Finance Department has been instructed that a copy of the signed contract must be on file in the Finance Department before a contract payment can be made to the contractor. This has already been implemented and is working very well.

**FINDING No. 30: Competitive Selection Process**

Management partially concurs with the findings and recommendation of the Auditor General. Management is currently preparing an RFP for banking services and the competitive bid process will be followed in the future. Subsequent to the delivery of the Preliminary and Tentative Findings by the Auditor General's Office, staff discovered that Heisenbottle Architects was selected in a competitive process through an RFP issued in 1996.

**FINDING No 31: Inadequate Support for Contractual Expenditures**

Management concurs with the findings and recommendation of the Auditor General. All vendors are to submit detailed invoices that can be reviewed for compliance with their contract. Furthermore one of the first steps taken by the current management vis-à-vis records management was the centralization of records management within the Town Clerk's office as opposed to the past practice of a decentralized system.

**FINDING No. 32: Contract for Police Services**

Management concurs with the findings and recommendation of the Auditor General. Management will provide a more detailed cost/benefit analysis for potential outsourcings.

**FINDING No. 33: Contract for Fire and Emergency Services**

Management does not concur with the findings of the Auditor General. The contract was subject to both Town Attorney and County Attorney review prior to execution. However, management will submit the documentation to the Attorney General's Office for review and move to have the contract language amended should such direction be advised.

**FINDING No. 34: Contract for Construction Services**

Management concurs with the findings and recommendation of the Auditor General. The Purchasing Policies and Procedures will have to be changed to reflect this recommendation.

**FINDING No. 35: Investment Advisory Services**

Management concurs with the findings and recommendation of the Auditor General. However, the Police and Fire Pensions are separate entities from the Town. They have their own separate Board of Directors that handle the operations of the Pension Plans including the hiring of an investment advisor and the payment of all pension plan expenses. The Town does not have any authority over these decisions. Therefore, the appropriate payment of the investment advisor is the responsibility of each pension's Board of Directors; it is not the responsibility of the Town. The Town will make efforts to cooperate more closely with these entities in the future as the financial burden is ultimately the Town's.

**FINDING No. 36: Travel Policies**  
**FINDING No. 37: Travel Allowance**  
**FINDING No. 38: Travel Reimbursement**  
**FINDING No. 39: Taxable Meal Allowance**

Management concurs with the findings and recommendation of the Auditor General. The above listed issues related to policies on travel shall be addressed by ordinance in order to bring the Town of Lake Park's travel policy in compliance with FSS 112.061 and to allow for an increase to the sustenance amount.

**FINDING No. 40: Telecommunication Taxes**

Management concurs with the finding and recommendation of the Auditor General. The Finance Department has notified all telecommunication vendors that we are exempt from the taxes and the taxes have been removed from our monthly billing.

**FINDING No. 41: Telecommunication Charges**

Management concurs with the findings and recommendations of the Auditor General. The Finance Department will draft a procedure for the review of monthly telephone bills. Timely payment of these bills has already been addressed with the appropriate staff.

**FINDING No. 42: Vehicle Utilization Records**

Management concurs with the findings and recommendation of the Auditor General. A policy regarding the use of Town vehicles, assigned and unassigned is presently being addressed and should be in place by November 30, 2002. There are presently two (2) persons employed by the Town of Lake Park who have an assigned vehicle; the Director of Public Works and the Assistant to the Town Manager. All other vehicles owned by the Town are utilized during working hours only or for specific Town business (e.g. delivery of agenda packets). The Town Manager and the Community Affairs Director receive an allowance for the use of their privately owned vehicles for Town business.

**FINDING No. 43: Conflict of Interest**

A procedure regarding Conflict of Interest shall be implemented in compliance with Section 2-110.1 of the Town's Code of Ordinances and will be in place by November 30, 2002

**FINDING No. 44: Sunshine Law**

Management partially concurs with the findings and recommendations of the Auditor General's Office. Management believes that sufficient notification was given to alleviate any concern that public business was being conducted in a cloaked fashion. However; given the stringent nature of the State's Sunshine Law, management will advise the Commission when they may be technically within the bounds of the law but subject to criticism for any appearance of impropriety.